

CHINA PHARMA HOLDINGS, INC.  
Form 10-K  
March 04, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**Form 10-K**

(Mark one)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2009

**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-29523

**China Pharma Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
incorporation or organization)

**73-1564807**  
(I.R.S. Employer I.D. No.)

**2nd Floor, No. 17, Jinpan Road, Haikou, Hainan Province, China 570216**  
(Address of principal executive offices, including Zip Code)

**0086-898-66811730 (China)**  
(Registrant's telephone number)

Securities registered under Section 12(b) of the Exchange Act: **None**

Securities registered under Section 12(g) of the Exchange Act:

**Common stock, \$0.001 par value**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The issuer's revenue for the fiscal year ended December 31, 2009 was \$61,696,620.

The number of shares and aggregate market value of common stock held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter was 19,184,972 and \$27,818,209.4, respectively.

As of March 3, 2010, there were 43,293,642 shares of Common Stock issued and outstanding.



**China Pharma Holdings, Inc.**

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## PART I

Certain statements in this Form 10-K constitute "forward-looking statements". These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The forward-looking statements in this Form 10-K are identified by words such as "believes", "anticipates", "expects", "intends", "may", "will", "estimate", "continue" and other similar expressions regarding our intent, belief and current expectations. However, these words are not the exclusive means of identifying such statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances and statements made in the future tense are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements as a result of various factors, many of which are beyond our control. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances occurring subsequent to the filing of this Form 10-K with the Securities and Exchange Commission. Readers are urged to carefully review and consider the various disclosures made by us in this Form 10-K, including those set forth under "Risk Factors".

### Item 1. Business

#### Overview

China Pharma Holdings, Inc. (formerly, TS Electronics, Inc. and prior thereto, Softstone, Inc.) was incorporated on January 28, 1999, pursuant to the provisions of the General Corporation Act of the State of Delaware. On May 31, 1999, we merged with Soft Stone Building Products, Inc., an Oklahoma corporation that was a predecessor to our Company's business. Our initial business operations were conducted at 620 Dallas Drive, Denton TX, 76205. On February 1, 2000, we moved our offices and facilities to Ardmore, OK. In June 2002, we moved our office facilities to Pottsboro, TX. On August 13, 2003, we changed our name to TS Electronics, Inc. On March 15, 2006, we changed our name from TS Electronics, Inc. to China Pharma Holdings, Inc.

Our focus initially was solely on realizing the commercial benefits of a process developed and patented by our first president, Frederick Parker. This process converted waste tires into useful products. We were not successful in promoting this business, wrote off all assets associated with the business and shifted our attention to the commercial possibilities of a then, newly discovered devulcanization process to which we acquired a 5.5 year exclusive license for the Western Hemisphere. In addition, we entered into the business of importing hard-to-find and specialty crumb rubber. We were also not successful in these endeavors and have abandoned all efforts regarding these pursuits.

Effective August 11, 2004, the Company entered into a Stock Exchange Agreement with Hou Xiao, the sole stockholder of China ESCO Holdings Limited ("China ESCO"), a company organized in the Hong Kong Special Administration Region in the People's Republic of China (the "PRC") and its wholly owned operating subsidiary, AsiaNet PE Systems Limited. China ESCO was engaged in the development and manufacturing of electrical energy saving systems and products in the PRC.

The consummation of the transaction with China ESCO was subject to a number of conditions, including receipt by us of financial statements of China ESCO as required under applicable regulations, and satisfaction of all applicable regulatory requirements. In January 2005, we declared China ESCO to be in material breach of the agreement and rescinded the agreement.

Effective February 8, 2005, we executed a Letter of Intent with Osage Energy Company, LLC ("Osage") whereby Osage would acquire 90% of the equity interests of the Company. This transaction was never consummated by the parties. The Company had no operations or significant assets from the quarter ended December 31, 2004 until May 2005.



On May 11, 2005, we sold to Halter Financial Group, Inc., in a private placement, 1,875,045 shares of common stock at a purchase price of \$0.1066641 per share, pursuant to the terms of a Stock Purchase Agreement (the "Purchase Agreement"). The private placement was exempt from the registration requirements of the Securities Act, in reliance upon Section 4(2) thereunder. As a result of the purchase, Halter Financial Group, Inc. became our controlling stockholder, owning approximately 75% of our issued and outstanding shares of common stock.

Immediately subsequent to, and as a result of, the closing of the transactions contemplated by the Purchase Agreement, Gene F. Boyd, Keith P. Boyd, Fredrick W. Parker and Leo G. Templer resigned as officers and directors, as applicable, of the Company. Timothy P. Halter was concurrently appointed as a member of the Board of Directors, and Mr. Halter was elected as President, Chief Accounting Officer and Secretary of the Company.

On October 19, 2005 we entered into a Securities Exchange Agreement (the "Exchange Agreement") with Onny Investment Limited, a British Virgin Islands company, and its original stockholders pursuant to which we acquired all of the issued and outstanding shares of Onny from said stockholders in exchange for 27,499,940 shares of our common stock. Upon the closing of the exchange transaction (the "Exchange Transaction"), Onny became the wholly owned subsidiary of our Company. The Exchange Agreement also provides that, upon the effectiveness of an amendment to the Company's Certificate of Incorporation to increase its authorized capital stock, the Company shall issue to Heung Mei Tsui, the principal stockholder of Onny, an additional 4,723,056 shares of common stock (the "Post Closing Shares") to which she would otherwise have been entitled if the Company had enough authorized shares as of the closing of the Exchange Transaction.

Immediately prior to the closing of the Exchange Transaction, Onny completed a private placement (the "Onny Offering") of its convertible preferred stock to 46 accredited investors. The Onny Offering raised gross proceeds of \$5,000,000. Additionally, immediately prior to the Exchange Transaction, participants in the Onny Offering exchanged their preferred shares for an aggregate of 10,000 shares of Onny's common stock. Participants in the Onny Offering then participated in the Exchange Transaction by exchanging such 10,000 shares of common stock for 6,944,619 shares of our common stock.

On March 15, 2006, the Company amended its Certificate of Incorporation to increase its authorized capital stock from 30,000,000 to 60,000,000 shares and filed the Information Statement in accordance with Section 14 of the Exchange Act. On May 16, 2006, the Company issued to Heung Mei Tsui an additional 4,723,056 shares of common stock as provided in the Exchange Agreement. Upon the issuance of the Post Closing Shares, Ms. Tsui holds 25,278,385 shares or approximately 72.8% of the issued and outstanding common stock of the Company.

On July 24, 2006, Zhilin Li, Heung Mei Tsui and the Company entered into that certain Stock Transfer Agreement, as amended on November 24, 2006, pursuant to which Heung Mei Tsui transferred 10,000,000 shares of her personal holdings of the Company's common stock to Zhilin Li in exchange for a sublicense to a patent held by a third party, which is licensed to Ms. Li. After the aforementioned stock transfer, Ms. Tsui holds 15,278,385 shares or 44.0% of the total outstanding shares of our common stock. Ms. Li holds 10,000,000 shares or 28.8% of the total outstanding shares of our common stock.

On February 1, 2007, we completed an offering pursuant to a Subscription and Registration Rights Agreement ("Agreement") with 17 accredited investors in connection with a private placement of 2,505,882 shares of the Company's common stock at \$1.7 per share ("2007 Private Placement"). Pursuant to the Agreement, the Investors also received three-year warrants to purchase an aggregate of 1,252,941 shares of Company's common stock at \$2.38 per share. Pursuant to the transaction on February 1, 2007, we received the subscription proceeds in the aggregate amount of \$4,259,900. The net proceeds, after deduction of related offering expenses of \$ 462,717, amounted to \$3,797,183. The warrant holders have exercised warrants to purchase an aggregate of 1,164,704 shares of the Company's common stock (with the fractional shares eliminated) till the Expiration Time. The remaining warrants to purchase 88,235 shares of the Company's common stock expired on the Expiration Time.





On September 27, 2007, Heung Mei Tsui and the Company entered into four Stock Transfer Agreements with Chipiu Wong, Ruofeng Xu, Yao Huang and Jian Yang respectively, pursuant to which, Heung Mei Tsui transferred in aggregate 4,465,734 shares of the Company's common stock at the price of \$1.52 per share to the four individuals. After the aforementioned stock transfer, Ms. Tsui holds 10,812,651 shares or 29.0% of the total outstanding shares of our common stock.

In May 2008, the Company completed an offering of units priced at \$2.00 per unit consisting of one share of the Company's common stock and a warrant to purchase one-quarter of a share of the Company's common stock with an exercise price of \$2.80 per share ("2008 Private Placement"). The Company issued an aggregate of 5,000,000 shares of common stock and issued three-year warrants to purchase an aggregate of 1,250,000 shares of Company's common stock to 17 accredited investors. We received the subscription proceeds in the aggregate amount of \$10,000,000. The net proceeds, after deduction of related offering expenses of \$731,061.70, amounted to \$9,268,938.30. In addition, the placement agent in the transaction was issued three-year warrants to purchase 300,000 shares of common stock at an exercise price of \$2.98 per share.

### Onny

Onny Investment Limited ("Onny") was incorporated on January 12, 2005 under the laws of the British Virgin Islands. At the time of its incorporation, Onny's authorized capital was \$50,000 and there were 50,000 shares of one class and one series of capital stock, \$1.00 par value, issued and outstanding. Heung Mei Tsui was, at the time of incorporation, the sole stockholder and director of Onny. On August 18, 2005, Onny increased its authorized capital to \$5,000,000 divided into 40,000 ordinary shares of capital stock, \$100.00 par value, and 10,000 preferred shares, \$100.00 par value. As of the date of this Form 10-K, there are 39,700 ordinary shares issued and outstanding, all of which are held by the Company. No preferred shares of Onny are currently issued and outstanding.

On May 25, 2005, Onny acquired all the equity interests in Hainan Helpson Medical & Biotechnology Co., Ltd. in exchange for the assumption of obligations to make cash payments to the Helpson shareholders in the form of common stock dividends from Helpson of \$4,154,041, the assumption of \$4,646,409 of other liabilities and the issuance of non-interest bearing promissory notes totaling \$3,413,265 payable three months after Helpson obtains a business license in the PRC as a wholly foreign owned entity. Effective as of June 21, 2005, Onny became the sole stockholder of Helpson, and Helpson became a wholly foreign-owned enterprise as defined by PRC law.

On October 19, 2005, Onny completed the Onny Offering. Under the terms of the Onny Offering, Heung Mei Tsui agreed to escrow 6,944,611 shares of the Company's common stock that she received as a result of the Exchange Transaction. These shares represent 20% of the Company's issued and outstanding common stock immediately following the closing of the Exchange Transaction (the "Make Good Shares"), so that in the event that actual net income set forth in the consolidated financial statements of the Company for the fiscal year ending December 31, 2006 ("NI") does not reflect \$8 million of net income (the "Guaranteed NI"), the Make Good Shares can be distributed on a pro rata basis to the participants of the Onny Offering in accordance with the following formula:

Make Good Shares = ((Guaranteed NI - NI) / \$8m) X Make Good Pool

If required, the Make Good Shares will be delivered to participants in the Onny Offering within ten (10) business days of the date the audit report for the period is filed with the SEC.

Additionally, in connection with the Onny Offering, Heung Mei Tsui escrowed 277,785 shares of the Company's common stock that she received as a result of the Exchange Transaction, which shares represent 0.8% of the Company's issued and outstanding common stock immediately following the closing of the Exchange Transaction (the "HFG Make Good Pool"), so that in the event the Company does not achieve the Guaranteed NI, the HFG Make Good Shares will be distributed to HFG International, Limited, an affiliate of Halter Financial Group, Inc., in accordance with the following formula:

HFG Make Good Shares = ((Guaranteed NI - NI) / \$8m) X HFG Make Good Pool

If required, the HFG Make Good Shares will be delivered within ten (10) business days of the date the audit report for the period is filed with the SEC.

According to the audited consolidated financial statement of the Company for the fiscal year ending December 31, 2006, the net income was \$8,587,086 which is more than the Guaranteed NI. Therefore, 7,222,396 shares of the Company's common stock which was escrowed shall be reverted back to Heung Mei Tsui. As of the date of this report, Heung Mei Tsui holds 9,312,651 shares of our common stock.

#### Helpson

Hainan Helpson Medical & Biotechnology Co., Ltd. ("Helpson") is a foreign-invested enterprise established in Haikou, Hainan Province, PRC on February 25, 1993. Initially, its name was Hainan Fulin Biomedical Co., Ltd., which was changed to "Helpson" in 1999. The company was originally an "equity joint venture" as defined by China's laws on foreign invested enterprises. The two joint venturers were Haikou Biomedical Engineering Co., Ltd. ("Haikou Biomedical"), a PRC company, and Hong Kong Fudao Development Co., Ltd. ("Fudao"), a Hong Kong company. Haikou Biomedical invested RMB 2,100,000 for a 70% share of Helpson, and Fudao invested \$150,000 for a 30% share of Helpson.

On June 16, 2001, Fudao entered into an Equity Interest Transfer Agreement with Hainan Kaidi Science and Technology Co., Ltd., a PRC company ("Kaidi"). In accordance with the Equity Interest Transfer Agreement, Fudao transferred all of its 30% capital contribution in Helpson to Kaidi in consideration of RMB 2,780,000. As a result of the transfer, Haikou Biomedical continued to hold a 70% equity interest in Helpson, while Kaidi had a 30% equity interest in Helpson. Therefore, Helpson became a PRC domestic company, rather than a foreign-invested company.

Effective on December 26, 2003, Helpson issued new capital stock to Chengdu Huineng Biomedical Co., Ltd. ("Chengdu Bio") and Chongqing Chemical Medicine Holding Group ("Chongqing Chemical"). Chengdu Bio contributed RMB 3,000,000 for a 10.71% equity interest in Helpson and an additional RMB 3,000,000 for Helpson's capital common reserve fund, and Chongqing Chemical contributed RMB 5,000,000 for a 17.86% equity interest in Helpson and an additional RMB 5,000,000 for Helpson's capital common reserve fund. After the issuance of shares, Helpson had four equity holders: Haikou Biomedical, holding 50% equity interest; Kaidi, holding 21.43% equity interest; Chengdu Bio, holding 10.71% equity interest; and Chongqing Chemical, holding 17.86% equity interest.

On March 8, 2005, Chongqing Chemical entered into an equity interest transfer agreement with Haikou Biomedical to transfer all of its equity interest in Helpson to Haikou Biomedical. Upon completion of the transfer, there remained only three equity holders of Helpson: Haikou Biomedical, holding 67.86% equity interest; Kaidi, holding 21.43% equity interest, and Chengdu Bio, holding 10.71% equity interest.



As set forth above, on May 25, 2005, Haikou Biomedical, Kaidi and Chengdu Bio entered into an equity interest transfer agreement with Onny to transfer all their equity interests in Helpson to Onny. Effective as of June 21, 2005, Onny became the sole stockholder of Helpson, and Helpson became a wholly foreign-owned enterprise as defined by PRC law.

Upon the closing of the Exchange Transaction on October 19, 2005, we acquired all of the issued and outstanding shares of Onny in exchange for 27,499,940 shares of our common stock and became Onny's sole stockholder. As a result, as of October 19, 2005, Helpson became our wholly owned subsidiary.

As of July 4, 2006, Helpson increased its registered capital from RMB 28,000,000 to RMB 60,000,000 and changed its registered address from Unit 8, D Area, Office Hall, Haikou Bonded Zone, Haikou, Hainan Province, China to C09-2, Haikou Bonded Zone, Haikou, Hainan Province, PRC.

Helpson positions itself as a specialty pharmaceutical company with rapidly growing profit that develops, manufactures, and markets treatments for a wide range of high incidence and high mortality conditions in China, including cardio and cerebrovascular diseases, Central Nervous System (CNS) disease, infectious disease, and hepatitis. The Company's cost-effective, high margin business model is driven by market demand and supported by 8 scalable GMP-certified production lines covering the major dosage forms. In addition, the Company has a broad and expanding distribution network across 30 Chinese provinces, municipalities and autonomous regions and possesses a strong R&D platform from numerous well-established collaborations with prestigious universities.

### **Principal Products and Services**

Helpson's primary business is the manufacturing, marketing and sales of pharmaceuticals and nutritional supplements. Helpson manufactures and markets products in three major categories: biochemical products, health products and cosmetics.

At present, Helpson is manufacturing or ready to manufacture a total of 20 pharmaceutical products.

#### *CNS & Cerebral-Cardiovascular Diseases*

Bumetanide for Injection: a diuretics drug used for the treatment of various edema diseases (including those associated with heart failure, hepatic cirrhosis, nephropathy, and pulmonary edema and etc.), hypertension, and for the treatment and prevention of acute renal failure, hyperkalemia, hypercalcemia and for the rescue of acute drug poisoning.

Gastrodin Injection: used in case of the following symptoms: tiredness, loss of concentration, poor sleep, (the "declined spirit" syndrome), and for traumatic syndromes of the brain; vertigo; neuralgia; headaches etc.

Cerebroprotein Hydrolysate Injection: indicated for the treatment of memory decline and attention deficit disorder (ADD) caused by the sequela of craniocerebral trauma and cerebrovascular diseases.

Buflomedil Hydrochloride: used for the treatment of peripheral blood vessel diseases, including intermission claudication, Renaud syndrome and blood vessel convulsion.

Propylgallate for Injection: used for preventing and treating cerebral thrombosis, coronary heart disease, and complication after the surgery-thrombus deep phlebitis, etc.

Ozagrel Sodium for Injection: used to treat acute thrombus brain infarction and brain sport obstacle infarction.

Alginate Sodium Diester Injection: used in ischemic heart disease, cerebrovascular diseases (cerebral thrombosis, cerebral embolism, coronary heart disease, etc.) and high lipoprotein blood disease.

#### *Anti-infection and Respiratory*

Cefaclor Dispersible Tablets: a cephalosporin antibiotic drug used for the treatment of tympanitis, lower respiratory tract infection, urinary tract infections (UTI) and skin/skin tissue infection.

Roxithromycin Dispersible Tablet: a macrolide antibiotic used for the treatment of pharyngitis and tonsillitis caused by *Streptococcus pyogenes*; sinusitis, tympanitis, acute and chronic bronchitis caused by acute bacteria, *Mycoplasma pneumoniae* and *Chlamydia pneumoniae*; urethritis and cervical infection caused by *Chlamydia trachomatis* (CT); skin soft tissue infection caused by sensitive bacteria.

Clarithromycin Granules and Capsules: a macrolide antibiotic drug for the treatment of nasopharynx infection, lower respiratory tract infection, skin tissue infection, acute tympanitis and *Mycoplasma pneumoniae* caused by clarithromycin susceptible organisms; urethritis and cervical infection caused by *Chlamydia trachomatis* (CT); and the treatment of legionella infection, *Mycobacterium avium* complex (MAC) infection and *Helicobacter pylori* infection.

Naproxen Sodium and Pseudoephedrine Hydrochloride Sustained Release Tablets: to temporarily relieve cold, sinus and flu symptoms, blocked nose caused by anaphylaxis rhinitis, runny nose, fever, sore throat, symptoms of myalgia in the limbs and pain around the joints.

Cefalexin Capsules: suitable for acute tonsillitis caused by sensitive fungi, airway infections, such as pharyngitis, otitis media, nasal sinusitis, bronchitis; pneumonia, respiratory tract infection, urinary tract infections and skin soft tissue infections etc.

Anhydroandrographolide: used for clearing away heat and detoxify, as an antibacterial and to diminish inflammation; used in upper respiratory infection, bacillary diarrhea.

#### *Digestive Disease*

Hepatocyte Growth-promoting Factor for Injection: used to treat serious viral hepatitis symptoms caused by various viral hepatitis types (acute, subnormal temperature, chronic serious disease early or middle period of hepatitis)

Tiopronin is widely prescribed for the treatment of acute and chronic Hepatitis B (HB), and for the relief of drug-induced liver injury.

Omeprazole is widely utilized to treat gastroesophageal reflux disease (GERD), and is highly effective in other conditions caused by excess acidic formulations in the stomach, including gastric ulcers, recurrent duodenal ulcers and Zollinger-Ellison Syndrome.

#### *Others*

Granisetron Hydrochloride Injection: indicated to reduce the symptom of nausea and vomiting caused by radiotherapy and chemotherapy during the treatment of malignant tumors.



Vitamin B6 for Injection: vitamin supplement.

Thymopolypeptides Injection: used for treating various primary or recurring T cell defective diseases, autoimmune diseases, to assist in the treatment of diseases and tumors of various cells with reduced immunological function.

Recombined Human Fibroblast Growth Factor (rhaFGF), which is used as a raw material for cosmetics and has the function of wound repairing, including damages caused by ultraviolet ray, acne, analeptic organized by the skin, or citric acid.

Helpson also possessed official documents on drug registration for Compound Ammonium Glycyrrhetate S for Injection issued by China's State Food and Drug Administration on June 6, 2008.

Due to the nature of the biotechnology and pharmaceutical industries, Helpson continually strives to change its product portfolio to respond to changes in market demand. Based on the foundation established by some of Helpson's widely recognized medicine labels such as Buflomedil and Alginic Sodium Diester, Helpson has launched and will continue to launch a variety of medicines.

Helpson adjusts the delivery system and marketing for each of its products based on the product's target patient group. Maintaining a variety of delivery systems (e.g. tablet, injection, powder, etc.) targeting at different groups enhances Helpson's competitive position in the market. Helpson's present types of delivery include tablet, capsule, granule, injectable and dry powder.

### **Principal Markets**

The principal markets of Helpson lie within China. With approximately one-fifth of the world's population and a fast-growing gross domestic product, China presents significant potential for the pharmaceutical industry. According to the Freedonia Group, pharmaceutical demand in China reached RMB198.0 billion (\$25.4 billion) in 2005, representing a growth of 12.1% annually since 2000. The Freedonia Group expects the total pharmaceutical expenditure in China to grow at 13.6% annually between 2005 and 2010. Such growth rate is significantly higher as compared to the rest of the world, where growth of the pharmaceutical industry is projected to be at a compound annual growth rate of 5.0% to 8.0% between 2004 and 2009 according to IMS Health. According to IMS forecasts, China will become the seventh largest pharmaceutical market in the world in 2009 and the second largest in 2020, with a market capacity of US\$220 billion.

The growth is driven by increased income levels, overall improvement of life quality and the consumer's desire for improved healthcare. In addition, the broader coverage of healthcare and the increasing aging population contribute to the increased demand for pharmaceutical products. Increased healthcare spending by the Chinese government to reform the healthcare system has already greatly improved the accessibility to and desire for medical care. The Chinese government's increased spending on the rural market is another driving force of our future development.

### **Distribution**

As of December 31, 2009, Helpson's products were sold in more than 30 provinces, municipalities and autonomous regions. Helpson has 16 sales offices, 116 sales personnel and approximately 1250 proxy agents throughout China.

### **Industry Background and Competition**

The pharmaceutical industry's primary categories include chemical medicine, traditional Chinese medicinal material, traditional Chinese medicinal film, prepared Chinese herbal medicine, antibiotics, biological products, biological



medicine, radioactive medicine, medical appliances, sanitation materials, pharmaceutical machinery, medical packaging and trading.

Competition in the pharmaceutical industry is reduced by barriers to entry. A company wishing to enter into the industry must comply with the standards and regulations set forth by the government. In the PRC, the State Food and Drug Administration of China (the "SFDA") is the authority that monitors and supervises the administration of the pharmaceutical industry including pharmaceutical products, medical appliances, and equipment. Pharmaceutical manufacturing enterprises must obtain a Pharmaceutical Manufacturing Enterprise Permit issued by the relevant pharmaceutical administrative authorities and relevant health departments at the provincial level where the enterprise is located. Furthermore, all pharmaceutical products produced in the PRC, with the exception of Chinese herbal medicines in soluble form, must bear a registered number approved by the appropriate governmental authorities in the PRC. Lastly, in accordance with the World Health Organization, the PRC now requires compliance with GMP standards in pharmaceutical production in order to minimize the risks involved in any pharmaceutical production that cannot be eliminated through testing final products. As the regulatory approval process becomes more stringent, it also increases the barriers to entering the market.

Due to the variety of consumer demands within the pharmaceutical market, pharmaceutical companies have relatively dispersed product lines. We have identified, however, two primary strategies we must adopt in order to stay competitive. In expanding market share of common traditional medicine, we must take advantage of 1) our large manufacturing scale and reasonable cost control mechanisms, and 2) our strong sales network.

### **Intellectual Property**

Helpson owns the following 17 registered trademarks: Funalin, Fukexing, Beisha, Shiduotai, Xinuo, Pusenlitai, Pusenouke, Shuchang, Shenkaineng, an AFGF logo, an HPS logo, two HELPSON logos, as well as four other logos. The registration numbers of the 17 registered trademarks are as follows: No.1280259, No.1500459, No.1511770, No.1535416, No.1537828, No.1535420, No.1272792, No.1272759, No.1272760, No.1330294, No.1327731, No.1330295, No.1476339 and No.3993785, No. 4074317, No.4074321 and No. 4315247.

### **Employees**

As of December 31, 2009, Helpson had 252 regular employees and 42 temporary workers. Helpson was also aided by the efforts of a 116 member outside sales and marketing team.

### **Item 1A. Risk Factors**

#### **RISKS RELATED TO OUR BUSINESS AND INDUSTRY**

#### **WE MAY NEED TO RAISE ADDITIONAL CAPITAL WITHIN THE NEXT TWELVE MONTHS TO FUND OUR OPERATIONS AND FAILURE TO RAISE ADDITIONAL CAPITAL MAY FORCE US TO DELAY, REDUCE, OR ELIMINATE OUR PRODUCT DEVELOPMENT PROGRAMS**

Due to the large amount of funds required for research and development and for the purchase of intangible assets and the subsequent marketing of products, the pharmaceutical industry is very capital intensive. The industry is characterized by large and slow receivable turnovers, which signifies that we will need more working capital as our revenues increase. We have traditionally been committed to biomedical R&D, and are now developing traditional chemical medicines within specific market segments such as those of anti-flu and anti-infection. It is likely that we will need to raise additional capital within the next twelve months. Additional capital may be needed for the development of new products or product lines, financing of general and administrative expenses, licensing or acquisition of additional technologies, and marketing of new or existing products. There are no assurances that we will be able to raise the appropriate amount of capital needed for our future operations. Failure to obtain funding when needed may force us to delay, reduce, or eliminate our product development programs and have a material adverse effect on our profitability.



**ADVERSE ECONOMIC CONDITIONS MAY HARM OUR BUSINESS**

In 2008, general worldwide economic conditions declined due to sequential effects of the sub prime lending crisis, general credit market crisis, collateral effects on the finance and banking industries, concerns about inflation, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. This global economic downturn poses a risk as consumers and businesses may postpone spending, or seek new ways to eliminate spending, in response to these uncertain and challenging economic conditions. In addition, there could be a number of follow-on effects including foreign currency exchange rate fluctuations, insolvency of key suppliers and customer insolvencies. We cannot predict the timing or duration of any economic slowdown or recession or the timing or strength of a subsequent recovery, worldwide, or in the specific markets we serve. If the markets for our products significantly deteriorate due to these economic effects, our business, financial condition and results of operations may be materially and adversely affected.

**WE RELY ON A FEW SUPPLIERS AND ANY DISRUPTION WITH OUR SUPPLIERS COULD DELAY PRODUCT SHIPMENTS AND MATERIALLY ADVERSELY AFFECT OUR BUSINESS OPERATIONS AND PROFITABILITY**

We have developed relationships with a single or limited number of suppliers for materials that are otherwise generally available. Purchases from our three largest suppliers, Anhui Fuyang Xinte Pharmaceutical Company, Hainan Xinxin Biotechnology Co., Ltd. and Chongqing Yidong Pharmaceutical Company as of December 31, 2009, accounted for approximately 34.53%, 22.64% and 15.52% respectively of the total purchases of Helpson. Although we believe that alternative suppliers are available to supply materials, should either of these suppliers terminate their business arrangements with us or increase their prices of materials supplied, it could delay product shipments and materially adversely affect our business operations and profitability.

**IF ALL OR A SIGNIFICANT PORTION OF OUR TRADE RECEIVABLES ARE NOT COLLECTED OR COLLECTION IS DELAYED, OUR NET INCOME WILL DECREASE AND OUR PROFITABILITY WILL BE MATERIALLY ADVERSELY AFFECTED**

Our Company had trade receivables, net of allowance for doubtful accounts, of approximately \$36,008,095 (\$4,474,175 for doubtful accounts) and \$51,238,339 (\$2,718,358 for doubtful accounts) as of December 31, 2008 and 2009, respectively.

It is usual commercial practice that certain customers may repay their debts beyond credit periods granted or may repay slowly when transaction volume increases. There is no assurance that our trade receivables will be fully repaid on a timely basis. The percentage of a trade receivable that is deemed doubtful is as follows: 100% after 720 days; 10% after 360 days; and 3.5% up to 360 days.

If all or a significant portion of our customers with trade receivables fail to pay all or part of the trade receivables or delay the payment due to us for whatever reason, our net profit will decrease and our profitability will be materially adversely affected.

**WE MAY UNDERTAKE ACQUISITIONS IN THE FUTURE, AND ANY DIFFICULTIES IN INTEGRATING THESE ACQUISITIONS MAY DAMAGE OUR PROFITABILITY**

In the future, we may acquire additional businesses or products that complement our existing business and expand our business scale. The integration of new businesses and products may prove to be an expensive and time consuming procedure. We can offer no assurance that we will be able to successfully integrate the newly acquired businesses and products or operate the acquired business in a profitable manner. Failure to locate an appropriate acquisition target or failure to successfully integrate and operate acquired businesses and products may materially adversely impact our operations and profits.

**THE FAILURE TO MANAGE GROWTH EFFECTIVELY COULD HAVE AN ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION, AND RESULTS OF OUR OPERATIONS**

The rapid market growth of our pharmaceutical products may require our Company to expand our employee base for managerial, operational, financial, and other purposes. As of December 31, 2009, we had 252 regular employees. The continued future growth will impose significant responsibilities upon the members of management to identify, recruit, maintain, integrate, and motivate new employees. Aside from increased difficulties in the management of human resources, we may also encounter working capital issues, as we need increased liquidity to finance the purchases of raw materials and supplies, research and development and purchase of drug formulas for new products, acquisition of new businesses and technologies, and the hiring of additional employees. For effective growth management, we will be required to continue improving our operations, management, and financial systems and control. Our failure to manage growth effectively may lead to operational and financial inefficiencies that will have a negative effect on the Company's profitability.

**WE ARE DEPENDENT ON CERTAIN KEY PERSONNEL AND LOSS OF THESE KEY PERSONNEL COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Our Company's success is, to a certain extent, attributable to the management, sales and marketing, and pharmaceutical factory operational expertise of key personnel. Zhilin Li, Heqi Cai, and Yao Huang perform key functions in the operation of our Company. Ms. Li entered into an Employment Agreement with Helpson, which provides that she shall act as its CEO. The term of her Employment Agreement is from July 1, 2005, to June 30, 2010. Mr. Cai entered into an Employment Agreement with Helpson to act as its Director of Development Department for a term from July 1, 2005, to June 30, 2010. Ms. Huang entered into an Employment Agreement with Helpson to act as its Head of Pharmaceutical Plant for a term from July 1, 2005, to June 30, 2010. There can be no assurance that we will be able to retain these officers after the term of their employment or after their contracts expire. The loss of officers could have a material adverse effect upon our business, financial condition, and results of operations. We must attract, recruit and retain a sizeable workforce of technically competent employees. Our ability to effectively implement our business strategy will depend upon, among other factors, the successful recruitment and retention of additional highly skilled, experienced management and other key personnel. We cannot assure that we will be able to hire or retain such employees.

**IF WE FAIL TO DEVELOP NEW PRODUCTS WITH HIGH PROFIT MARGINS AND OUR HIGH PROFIT MARGIN PRODUCTS ARE REPLACED BY COMPETITOR'S PRODUCTS, THEN OUR GROSS AND NET PROFIT MARGINS WILL BE ADVERSELY AFFECTED**

In the years ended December 31, 2008 and 2009, our gross profit margin was 49.62% and 42% respectively. However, there is no assurance that we will be able to sustain such profit margins in the future. The pharmaceutical market in the PRC is very competitive, and there may be pressure to reduce sale prices of products without a corresponding decrease in the price of raw materials. To the extent that we fail to develop new products with high profit margins and our high profit margin products are substituted by competitors' products, gross profit margins will be adversely affected.



**WE FACE COMPETITION IN THE PHARMACEUTICAL MARKET IN THE PRC AND SUCH COMPETITION COULD CAUSE OUR SALES REVENUE AND PROFITS TO DECLINE**

According to the State Food and Drug Administration of China (the “SFDA”), there were approximately 5,071 pharmaceutical manufacturing companies in the PRC as of the end of June 2004, of which approximately 3,237 manufacturers obtained certificates of Good Manufacturing Practices Certification (“GMP certification”). After GMP certification became a mandatory requirement on July 1, 2004, approximately 1,834 pharmaceutical manufacturers were forced to cease production. Only the 3,237 pharmaceutical manufacturers with GMP certifications may continue their manufacturing operations. As of the end of 2006, there are 4682 enterprises manufacturing medicines and formulation in China. The certificates, permits, and licenses required for pharmaceutical operation in the PRC create a potentially significant barrier for new competitors seeking entrance into the market. Despite these obstacles, we face competitors that will attempt to create, or are already marketing, products in the PRC that are similar to ours. There can be no assurance that our products will be either more effective in their therapeutic abilities and/or be able to compete in price with that of our competitors. Failure to do either of these may result in decreased profits for our Company.

**OUR SUCCESS IS HIGHLY DEPENDENT ON CONTINUALLY DEVELOPING NEW AND ADVANCED PRODUCTS, TECHNOLOGIES, AND PROCESSES AND FAILURE TO DO SO MAY CAUSE US TO LOSE OUR COMPETITIVENESS IN THE PHARMACEUTICAL INDUSTRY AND MAY CAUSE OUR PROFITS TO DECLINE**

To remain competitive in the pharmaceutical industry, it is important to continually develop new and advanced products, technologies and processes. There is no assurance that our competitors’ new products, technologies and processes will not render our Company’s existing products obsolete or non-competitive. Our Company’s competitiveness in the pharmaceutical market therefore relies upon our ability to enhance our current products, introduce new products, and develop and implement new technologies and processes. Our Company’s failure to technologically evolve and/or develop new or enhanced products may cause us to lose our competitiveness in the pharmaceutical industry and may cause our profits to decline.

**THE COMMERCIAL SUCCESS OF OUR PRODUCTS DEPENDS UPON THE DEGREE OF MARKET ACCEPTANCE AMONG THE MEDICAL COMMUNITY AND FAILURE TO ATTAIN MARKET ACCEPTANCE AMONG THE MEDICAL COMMUNITY MAY HAVE AN ADVERSE IMPACT ON OUR OPERATIONS AND PROFITABILITY**

The commercial success of our products depends upon the degree of market acceptance among the medical community. Even if our products are approved by the SFDA, there is no assurance that physicians will prescribe or recommend our products to patients. Furthermore, a product’s prevalence and use at hospitals may be contingent upon our relationship with the medical community. The acceptance of our products among the medical community may depend upon several factors including, but not limited to, the product’s acceptance by physicians and patients as a safe and effective treatment, cost effectiveness, potential advantages over alternative treatments, and the prevalence and severity of side effects. Failure to attain market acceptance among the medical community may have an adverse impact on our operations and profitability.

**THE DISCONTINUATION OF ANY PREFERENTIAL TAX TREATMENTS OR OTHER INCENTIVES CURRENTLY AVAILABLE TO US IN THE PRC COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

Pursuant to the original Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises and its implementation rules, a foreign invested enterprise as defined under PRC laws shall pay 30% corporate income tax and 3% local income tax; an enterprise with foreign investment of a production nature scheduled to operate for a period of not less than ten years shall, from the year of making profits, be exempt from enterprise income tax in the first and second years and allowed a fifty percent reduction in the third to fifth years. Pursuant to the State Council's Regulations on Encouraging Investment in and Development of Hainan Island promulgated in May, 1988, the corporate income tax for all companies incorporated in Hainan Province is reduced to 15%. Pursuant to the Regulations on Foreign Investment in Hainan Special Economic Zone promulgated by Hainan Province in March, 1991 (the "Regulation on Foreign Investment"), all foreign invested enterprises incorporated in Hainan Province are exempt from the local income tax.

Helpson has obtained the approval for preferential enterprise income tax treatment from Hainan State Administration of Taxation at the end of 2006 and has begun to enjoy the preferential tax treatment. Therefore, Helpson shall be exempt from enterprise income tax in the first and second years after it begins to make profit, and shall pay enterprise income tax at the rate of 7.5% from the third to the fifth year after it begins to make profit.

However, on March 16, 2007, China's national congress approved the Enterprise Income Tax Law of the PRC ("New Income Tax Law"), which takes effect from January 1, 2008. The New Income Tax Law unifies the enterprise income tax rate, cost deduction and tax incentive policies for both domestic and foreign invested enterprises. Under the New Income Tax Law, enterprises that were established and already enjoyed preferential tax rates or tax holidays before March 16, 2007 will (i) in case of preferential tax rates, gradually increase to 25% rate for a period of 5 years, (ii) in case of tax holidays continue to enjoy them until the expiration of such term.

Therefore, Helpson will continue to enjoy preferential tax treatment until the expiration of the preferential term. There can be no assurance that Helpson will continue to be entitled to any preferential tax treatment or tax holidays after the transition period expires. The discontinuation of any such special or preferential tax treatment or other incentives could have an adverse affect our business, financial condition and results of operations.

#### **WE MAY BE SUBJECT TO THE PRC'S PRICE CONTROL OF DRUGS WHICH MAY LIMIT OUR PROFITABILITY AND EVEN CAUSE US TO STOP MANUFACTURING CERTAIN PRODUCTS**

The State Development and Reform Commission ("SDRC") of the PRC and the price administration bureaus of the relevant provinces of the PRC in which the pharmaceutical products are manufactured are responsible for the retail price control over our pharmaceutical products. The SDRC sets the price ceilings for certain pharmaceutical products in the PRC. Although our products have not been subject to such price controls as of the date of this Form 10-K, there is no assurance that our products will remain unaffected by it. Where our products are subject to a price ceiling, we will need to adjust the product price to meet the requirement and to accommodate for the pricing of competitors in the competition for market shares. The price ceilings set by the SDRC may limit our profitability, and in some instances, such as where the price ceiling is below production costs, may cause us to stop manufacturing certain products which may adversely affect our results of operations.

#### **OUR CERTIFICATES, PERMITS, AND LICENSES ARE SUBJECT TO GOVERNMENTAL CONTROL AND RENEWAL, AND THE FAILURE TO OBTAIN RENEWAL WOULD CAUSE ALL OR PART OF OUR OPERATIONS TO BE SUSPENDED AND HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION**



Our Company is subject to various PRC laws and regulations pertaining to the pharmaceutical industry. Our Company has attained certain certificates, permits, and licenses required for the operation of a pharmaceutical enterprise and the manufacturing of pharmaceutical products in the PRC. We obtained the Medicine Production Permit in December 2005, which is valid through December 31, 2010. We also possess five GMP certificates which are effective through May 19, 2010, April 17, 2011, May 7, 2013, August 10, 2013, September 20, 2014 and February 9, 2015 respectively. The pharmaceutical production permits and GMP certificates are each valid for a term of five years and must be renewed before their expiration. During the renewal process, we will be re-evaluated by the appropriate governmental authorities and must comply with the prevailing standards and regulations, which may change from time to time. In the event that we are not able to renew the certificates, permits and licenses, all or part of our operations may be suspended by the government, which would have a material adverse effect on our financial condition. Furthermore, if escalating compliance costs associated with governmental standards and regulations restrict or prohibit any part of our operations, it may adversely affect our results of operations and profitability.

**IF OUR PRODUCTS FAIL TO RECEIVE REGULATORY APPROVAL OR ARE SEVERELY LIMITED IN THE PRODUCTS SCOPE OF USE, THEN WE MAY BE UNABLE TO RECOUP CONSIDERABLE RESEARCH AND DEVELOPMENT EXPENDITURES ALREADY INCURRED**

Our products that are approved to be manufactured as of December 31, 2009 include 20 medicines. There are 9 products in the registration process as of December 31, 2009. The production of our pharmaceutical products is subject to the regulatory approval of the SFDA. The regulatory approval procedure for pharmaceuticals can be quite lengthy, costly, and uncertain. Depending upon the discretion of the SFDA, the approval process may be significantly delayed by additional clinical testing and require the expenditure of currently unavailable resources; in such an event, it may be necessary for us to abandon our application. Even where approval of the product is granted, it may contain significant limitations in the form of narrow indications, warnings, precautions, or contra-indications with respect to conditions of use. If approval of our product is denied, abandoned, or severely limited in terms of the scope of products use, it may result in the inability to recoup considerable research and development expenditures already incurred.

**OUR RESEARCH AND DEVELOPMENT MAY BE COSTLY AND/OR UNTIMELY, AND THERE ARE NO ASSURANCES THAT OUR RESEARCH AND DEVELOPMENT WILL EITHER BE SUCCESSFUL OR COMPLETED WITHIN THE ANTICIPATED TIMEFRAME, IF EVER AT ALL**

The research and development of our new and existing products and their subsequent commercialization can play an important role in our success. The research and development of new products can be costly and time consuming, and there are no assurances that our research and development of new products will either be successful or completed within the anticipated time frame, if ever at all. There are also no assurances that if the product is developed, that it will lead to successful commercialization.

**THE INTANGIBLE ASSETS THAT WE PURCHASE MAY BE COSTLY AND THERE ARE NO ASSURANCES THAT THE SUBSEQUENT COMMERCIALIZATION WILL BE COMPLETED WITHIN THE ANTICIPATED TIMEFRAME, IF EVER AT ALL**

In order to expand the number of medicines manufactured and marketed by the Company, the Company has entered into purchase contracts with independent and university laboratories. The intangible assets purchased through the contracts may be costly and there are also no assurances that it will lead to successful commercialization of the product.

**WE CANNOT GUARANTEE THE PROTECTION OF OUR INTELLECTUAL PROPERTY RIGHTS, AND IF INFRINGEMENT OR COUNTERFEITING OF OUR INTELLECTUAL PROPERTY RIGHTS OCCURS, THEN OUR REPUTATION AND BUSINESS MAY BE ADVERSELY AFFECTED**

To protect the brand names of our products, we have registered and applied for registration of our trademarks in the PRC, where we have a major business presence.

All of our products are sold under these trademarks. As of the date of this Form 10-K, we have not experienced any infringements of such trademarks for sales of pharmaceutical products, and as of the date of this Form 10-K, we were not aware of any infringement of our intellectual property rights. However, there is no assurance that there will not be any infringement of our brand name or other registered trademarks or counterfeiting of our products in the future. Should any such infringement or counterfeiting occur, our reputation and business may be adversely affected. We may also incur significant expenses and substantial amounts of time and effort to protect our intellectual property rights in the future. Such diversion of our resources may adversely affect our existing business and future expansion plans.

**OUR REPUTATION AND BUSINESS MAY BE ADVERSELY AFFECTED AS A RESULT OF PRODUCT LIABILITY OR DEFECTIVE PRODUCTS**

We may produce products which inadvertently have an adverse pharmaceutical effect on the health of individuals despite proper testing. Existing PRC laws and regulations do not require us to maintain third party liability insurance to cover product liability claims. However, if a product liability claim is brought against us, it may, regardless of merit or eventual outcome, result in damage to our reputation, breach of contract with our customers, decreased demand for our products, costly litigation, product recalls, loss of revenue, and the inability to commercialize some products. We are currently not aware of any existing or anticipated product liability claims with respect to our products.

**WE RELY ON THE COOPERATION WITH CERTAIN RESEARCH LABORATORIES, PHARMACEUTICAL INSTITUTIONS, AND UNIVERSITIES, AND IF THESE INSTITUTIONS CEASE TO COOPERATE WITH US AND WE CANNOT FIND OTHER SUITABLE SUBSTITUTE RESEARCH AND DEVELOPMENT PARTNERS, THEN OUR ABILITY TO DEVELOP NEW PRODUCTS MAY BE HINDERED AND OUR BUSINESS MAY BE ADVERSELY AFFECTED**

Helpson cooperates with several research institutions including China Pharmaceutical University, Institute of Basic Medical Sciences of the Academy of Military Medical Science, the Chongqing Pharmaceutical Research Institute and Sichuan University. Helpson relies to a certain extent on these institutions for its development of new products. There is no assurance that these institutions will continue cooperating with Helpson to develop new products. In the event that these institutions cease to cooperate with Helpson and Helpson cannot find other suitable substitute research and development partners, our ability to develop new products may be hindered and our business may be adversely affected.

**RISKS RELATED TO DOING BUSINESS IN CHINA**

Helpson operates from facilities that are located in China. Accordingly, its operations must conform to governmental regulations and rules of the PRC.

**THE PRC LEGAL SYSTEM HAS INHERENT UNCERTAINTIES THAT COULD LIMIT THE LEGAL PROTECTIONS AVAILABLE TO US**

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In the late 1970s, the PRC government began to promulgate a comprehensive system of laws and regulations governing commercial matters. The overall effect of legislation enacted over the past 20 years has significantly enhanced the protections afforded to foreign-invested enterprises in China. However, these laws, regulations, and legal requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors.

The practical effect of the PRC legal system on our business operations in China can be viewed from two separate but intertwined considerations. First, as a matter of substantive law, the Foreign Invested Enterprise laws provide significant protection from government interference. In addition, these laws guarantee the full benefit of corporate articles and contracts to Foreign Invested Enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are not qualitatively different from the corporation laws found in the United States. Similarly, PRC accounting laws mandate accounting practices which may not be consistent with the U.S. Generally Accepted Accounting Principles. PRC accounting laws require that an annual “statutory audit” be performed in accordance with PRC accounting standards and that the account books of a foreign invested enterprise be maintained in accordance with PRC accounting laws. Article 14 of the PRC Wholly Foreign-Owned Enterprise Law requires a wholly foreign-owned enterprise to submit certain periodic fiscal reports and statements to designated financial and tax authorities. If a foreign-invested enterprise refuses to keep account books in China, the financial and tax authorities may impose a fine on it, and the industry and commerce administration authority may order it to suspend operations or may revoke its business license.

Second, while the enforcement of substantive rights may be less clear than United States procedures, foreign invested enterprises and wholly foreign-owned enterprises are PRC registered companies which enjoy the same status as other PRC registered companies in business-to-business dispute resolutions. The PRC legal infrastructure, however, is significantly different in operation from its United States counterpart, and may present a significant impediment to the operation of a foreign invested enterprise.

### **PRC ECONOMIC REFORM POLICIES OR NATIONALIZATION COULD RESULT IN A TOTAL INVESTMENT LOSS IN OUR COMMON STOCK**

Since 1979, the PRC government has reformed its economic policies. Because many reforms are unprecedented or experimental, they are expected to be refined and improved. Other political, economic and social factors, such as political changes, changes in the economic growth rates, unemployment or inflation, or in the disparities in per capita wealth between regions within China, could lead to further readjustment of the reform measures. This refining and readjustment process may negatively affect our operations.

Although the PRC government owns the majority of productive assets in China, in the past several years the government has implemented economic reform measures that emphasize decentralization and encourage private economic activity. Because these economic reform measures may be inconsistent or ineffectual, there are no assurances that:

- We will be able to capitalize on economic reforms;
- The Chinese government will continue its pursuit of economic reform policies;
- The economic policies, even if pursued, will be successful;
- Economic policies will not be significantly altered from time to time; or
- Business operations in China will not become subject to the risk of nationalization.



Over the last few years, China's economy has registered high growth rates. Recently, there have been indications that rates of inflation have increased. In response, the Chinese government recently has taken measures to curb this excessively expansive economy. These measures have included restrictions on the availability of domestic credit, reducing the purchasing capability of some of its customers, and limited recentralization of the approval process for purchases of certain foreign products. These austere measures alone may not succeed in slowing down the economy's excessive expansion or control inflation, and may result in severe dislocations in the Chinese economy. The PRC government may adopt additional measures to further combat inflation, including the establishment of freezes or restraints on certain projects or markets. These measures may adversely affect our operations.

There can be no assurance that the reforms to China's economic system will continue or that we will not be adversely affected by changes in China's political, economic, and social conditions and by changes in policies of the PRC government, such as changes in laws and regulations, measures which may be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and remittance abroad, and reduction in tariff protection and other import restrictions.

**YOU MAY EXPERIENCE DIFFICULTIES IN EFFECTING SERVICE OF LEGAL PROCESS, ENFORCING FOREIGN JUDGMENTS OR BRINGING ORIGINAL ACTIONS IN THE PRC BASED ON U.S. OR OTHER FOREIGN LAWS AGAINST THE COMPANY OR OUR MANAGEMENT**

Helpson, our operating company, is incorporated under the laws of the PRC, and substantially all of our assets are located in the PRC. In addition, many of our directors, managers, and executive officers reside within the PRC, and substantially all of the assets of these persons are located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon certain of our directors, supervisors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or many other countries. As a result, recognition and enforcement in the PRC of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible. Furthermore, an original action may be brought in the PRC against us, our directors, managers, or executive officers only if the actions are not required to be arbitrated by PRC law and Helpson's articles of association, and only if the facts alleged in the complaint give rise to a cause of action under PRC law. In connection with any such original action, a PRC court may impose civil liability, including monetary damages.

**BECAUSE WE RECEIVE SUBSTANTIALLY ALL OF OUR REVENUE IN RENMINBI, WHICH CURRENTLY IS NOT A FREELY CONVERTIBLE CURRENCY, AND THE PRC GOVERNMENT CONTROLS THE CURRENCY CONVERSION AND THE FLUCTUATION OF THE RENMINBI, WE ARE SUBJECT TO CHANGES IN THE PRCS' POLITICAL AND ECONOMIC DECISIONS**

We receive substantially all of our revenues in Renminbi, which currently is not a freely convertible currency. The PRC government may, at its discretion, restrict access in the future to foreign currencies for current account transactions. Any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies, after providing valid commercial documents, at those banks authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi, especially with respect to foreign exchange transactions.



**THE VALUE OF OUR SECURITIES WILL BE AFFECTED BY THE FOREIGN EXCHANGE RATE BETWEEN U.S. DOLLARS AND RMB**

The value of our common stock will be affected by the foreign exchange rate between U.S. dollars and Renminbi. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs and should the Renminbi appreciate against the U.S. dollar at that time, our financial position and the price of our common stock may be adversely affected. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our common stock or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiary in China would be reduced.

**THE GROWTH OF THE CHINESE ECONOMY HAS BEEN UNEVEN ACROSS GEOGRAPHIC REGIONS AND ECONOMIC SECTORS, AND A DOWNTURN IN CERTAIN REGIONS IN WHICH WE DO BUSINESS OR IN OUR ECONOMIC SECTOR WOULD SLOW DOWN OUR GROWTH AND PROFITABILITY**

The growth of the Chinese economy has been uneven across geographic regions and economic sectors. There can be no assurance that growth of the Chinese economy will be steady or that any downturn will not have a negative effect on our business. Our profitability may decrease due to a downturn in the Chinese economy. More specifically, the expansion of our sales area in the less economically developed central and western provinces of China will depend on those provinces achieving certain income levels.

**ANY OCCURRENCE OF SERIOUS INFECTIOUS DISEASES, SUCH AS RECURRENCE OF SEVERE ACUTE RESPIRATORY SYNDROME (SARS) CAUSING WIDESPREAD PUBLIC HEALTH PROBLEMS, COULD ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS**

A renewed outbreak of SARS or other widespread public health problems in China, where all of our revenue is derived, and in Hainan, where our operations are headquartered, could have a negative effect on our operations. Our operations may be impacted by a number of public health-related factors, including the following:

- quarantines or closures of our factories or subsidiaries which would severely disrupt its operations;
- the sickness or death of key officers and employees; and
- general slowdown in the Chinese economy.

Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations.

**WE ARE SUBJECT TO THE ENVIRONMENTAL PROTECTION LAWS OF THE PRC**

Our manufacturing process may produce by-products such as effluent, gases and noise, which are harmful to the environment. We are subject to multiple laws governing environmental protection, such as “The Law on Environmental Protection in the PRC” and “The Law on Prevention of Effluent Pollution in the PRC,” as well as standards set by the relevant governmental bodies determining the classification of different wastes and proper disposal. We have properly attained a waste disposal permit for our manufacturing facility, which details the types and concentration of effluents and gases allowed for disposal. The temporary waste disposal permit will expire on December 7, 2010. We are responsible for the renewal of the waste disposal permit. There is no assurance that we will obtain the renewal of the waste disposal permit when the current permit expires.

China is experiencing substantial problems with environmental pollution. Accordingly, it is likely that the national, provincial and local governmental agencies will adopt stricter pollution controls. There can be no assurance that future changes in environmental laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. Our business's profitability may be adversely affected if additional or modified environmental control regulations are imposed upon us.

**RECENT PRC REGULATIONS RELATING TO ACQUISITIONS OF PRC COMPANIES BY FOREIGN ENTITIES MAY LIMIT OUR ABILITY TO ACQUIRE PRC COMPANIES AND ADVERSELY AFFECT THE IMPLEMENTATION OF OUR STRATEGY AS WELL AS OUR BUSINESS AND PROSPECTS**

The PRC State Administration of Foreign Exchange or SAFE issued a public notice in October 2005 ("Decree No. 75"), requiring PRC residents and PRC corporate entities to register with and obtain approvals from competent local SAFE branch in connection with their direct or indirect offshore investment activities.

Decree No. 75 requires registration by March 31, 2006 of direct or indirect investments previously made by PRC residents in offshore companies prior to the implementation of Decree No. 75 on November 1, 2005. If a PRC shareholder with a direct or indirect stake in an offshore parent company fails to make the required SAFE registration, the PRC subsidiaries of such offshore parent company may be prohibited from making distributions of profit to the offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion.

In addition, SAFE issued updated internal implementing rules ("Implementing Rules") in relation to Decree No. 75. The Implementing Rules were promulgated and became effective on May 29, 2007. Such Implementing Rules provide more detailed provisions and requirements regarding the overseas investment foreign exchange registration procedures. For an offshore special purpose company which was established and owned the onshore assets or equity interests before the implementation date of the Decree No. 75, a retroactive SAFE registration requirement is repeated.

Due to the lack of official interpretation, some of the terms and provisions of the Decree No. 75 and the Implementing Rules remain unclear, and the implementation of the Decree No. 75 by central SAFE and local SAFE branches has been inconsistent since its adoption. Therefore, we cannot predict how Decree No. 75 will affect our business operations or future strategies. For example, our present and prospective PRC subsidiaries' ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with the Decree No. 75 by our PRC resident shareholders. In addition, such PRC residents may not always be able to complete registration procedures required by the Decree No. 75. We also have little control over either our present or prospective direct or indirect shareholders or the outcome of such registration procedures. A failure by our PRC resident shareholders or future PRC resident shareholders to comply with the Decree No. 75, if SAFE requires it, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiary's ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

On August 8, 2006, six PRC regulatory agencies, including the Chinese Securities Regulatory Commission, or CSRC, promulgated a regulation (the "M&A Regulation") which became effective on September 8, 2006. This regulation, among other things, has some provisions that purport to require that an offshore special purpose vehicle, or SPV, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange.



There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations, including the New M&A Rule. Accordingly, the Company cannot assure you that PRC government authorities will not ultimately take a view contrary to the Company's understanding that it does not need the CSRC approval, and PRC government authorities may impose some additional approvals and requirements. Therefore, we cannot predict how the M&A Regulation will affect our business operations or future strategy. If the CSRC requires that we obtain its approval, we may be unable to obtain a waiver of the CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding this CSRC approval requirement could have a material adverse effect on the trading price of our common stocks.

### **RISKS RELATED TO OUR COMMON STOCK**

#### **THE MARKET PRICE FOR OUR COMMON STOCK MAY BE VOLATILE WHICH COULD RESULT IN A COMPLETE LOSS OF YOUR INVESTMENT**

The market price for our common stock is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- o actual or anticipated fluctuations in our quarterly operating results,
- o announcements of new products by us or our competitors,
- o changes in financial estimates by securities analysts,
- o conditions in the pharmaceutical market,
- o changes in the economic performance or market valuations of other companies involved in pharmaceutical production,
- o announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments,
- o additions or departures of key personnel, or
- o potential litigation.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

#### **WE MAY ISSUE ADDITIONAL SHARES OF OUR CAPITAL STOCK TO RAISE ADDITIONAL CASH FOR WORKING CAPITAL; IF WE ISSUE ADDITIONAL SHARES OF OUR CAPITAL STOCK, OUR STOCKHOLDERS WILL EXPERIENCE DILUTION IN THEIR RESPECTIVE PERCENTAGE OWNERSHIP IN US THE COMPANY**

We may issue additional shares of our capital stock to raise additional cash for working capital. There is no anti-dilution protection or preemptive rights in connection with our common stock. Thus, the percentage ownership of existing holders of common stock may be diluted in their respective percentage ownership in us if we issue additional shares of our capital stock.

#### **A LARGE PORTION OF OUR COMMON STOCK IS CONTROLLED BY A SMALL NUMBER OF STOCKHOLDERS AND AS A RESULT, THESE STOCKHOLDERS ARE ABLE TO INFLUENCE AND ULTIMATELY CONTROL THE OUTCOME OF STOCKHOLDER VOTES ON VARIOUS MATTERS**

A large portion of our common stock is held by a small number of stockholders. For instance, Heung Mei Tsui holds 21.51% and Zhilin Li holds 23.10% of the Company's common stock, respectively, as of the date of this Form 10-K. As a result, these two stockholders are able to influence and ultimately control the outcome of stockholder votes on various matters, including the election of directors and other corporate transactions including business combinations. In addition, the occurrence of sales of a large number of shares of our common stock, or the perception that these sales could occur, may affect our stock price and could impair our ability to obtain capital through an offering of equity securities. Furthermore, the current ratios of ownership of our common stock reduce the public float and liquidity of our common stock which can in turn affect the market price of our common stock.

**WE ARE LIKELY TO REMAIN SUBJECT TO “PENNY STOCK” REGULATIONS AND AS A CONSEQUENCE THERE ARE ADDITIONAL SALES PRACTICE REQUIREMENTS AND ADDITIONAL WARNINGS ISSUED BY THE SEC**

As long as the trading price of our common stock is below \$5.00 per share, the open-market trading of our common stock will be subject to the “penny stock” rules of the SEC. The “penny stock” rules impose additional sales practice requirements on broker-dealers who sell securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of securities and have received the purchaser's written consent to the transaction before the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the broker-dealer must deliver, before the transaction, a disclosure schedule prescribed by the SEC relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information on the limited market in penny stocks. These additional burdens imposed on broker-dealers may restrict the ability of broker-dealers to sell the common stock and may affect a stockholder's ability to resell the common stock.

There can be no assurance that our common stock will qualify for exemption from the “penny stock” rules. In any event, even if our common stock is exempt from such rules, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of a “penny stock” if the SEC finds that such a restriction would be in the public interest.

Stockholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (iv) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market.

**WE ARE RESPONSIBLE FOR THE INDEMNIFICATION OF OUR OFFICERS AND DIRECTORS UNDER CERTAIN CIRCUMSTANCES WHICH COULD RESULT IN SUBSTANTIAL EXPENDITURES, WHICH WE MAY BE UNABLE TO RECOUP**

Our bylaws provide for the indemnification of our directors, officers, employees, and agents, under certain circumstances, against attorney's fees and other expenses incurred by them in any litigation to which they become a party arising from their association with or activities on behalf of us. This indemnification policy could result in substantial expenditures, which we may be unable to recoup.



**COMPLIANCE WITH THE SARBANES-OXLEY ACT COULD COST HUNDREDS OF THOUSANDS OF DOLLARS, REQUIRE ADDITIONAL PERSONNEL AND REQUIRE HUNDREDS OF MAN HOURS OF EFFORT, AND THERE CAN BE NO ASSURANCE THAT WE WILL HAVE THE PERSONNEL, FINANCIAL RESOURCES OR EXPERTISE TO COMPLY WITH THESE REGULATIONS**

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report of management on the Company's internal controls over financial reporting in their annual reports. We are subject to this requirement commencing with our fiscal year ending December 31, 2007 and a report of our management is included under Item 9A of this Annual Report on Form 10-K. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2009. However, in the future, our management may conclude that our internal controls over our financial reporting are not effective due to the identification of one or more material weaknesses if one or more material weaknesses are identified. We can provide no assurance that we will comply with all of the requirements imposed by Section 404 of the Sarbanes-Oxley Act. In the event we identify material weaknesses in our internal controls, or we cannot remediate the existing significant deficiencies in a timely manner, investors and others may lose confidence in the reliability of our financial statements.

**OUR HOLDING COMPANY STRUCTURE MAY LIMIT THE PAYMENT OF DIVIDENDS**

We have no direct business operations, other than our ownership of our subsidiaries. While we have no current intention of paying dividends, should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries and other holdings and investments. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions as discussed below. PRC regulations currently permit the payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our subsidiary in China is also required to set aside a portion of its after tax profits according to PRC accounting standards and regulations to fund certain reserve funds. Currently, our subsidiary in China is the only source of revenues or investment holdings for the payment of dividends. If it does not accumulate sufficient profits under PRC accounting standards and regulations to first fund certain reserve funds as required by PRC accounting standards, we will be unable to pay any dividends.

**Item 1B. Unresolved Staff Comments**

We currently do not have any unresolved comments of issues with the Staff of the Corporation Finance Division of the U.S. Securities and Exchange Commission.

**Item 2. Properties**

Helpson owns a factory with a construction area of 663.94 square meters located at the 6<sup>th</sup> floor of Standard Plant Building B, Jinpan Industrial Development Zone, Haikou, Hainan Province, PRC.

Helpson owns the land use rights to 22,936 square meters of land located on plot C09-2, Haikou Bonded Zone, Haikou. Helpson built a factory with a construction area of 6,593.20 square meters on this land.

In addition, Helpson rented the offices located at 2/F, Jiahai Building owned by Hainan Zhongfu Going-abroad Personnel Service Center ("Zhongfu") as its principal executive offices. The term of the lease is 10 years, from November 21, 2000 to November 20, 2010. The rent from November 21, 2000 to November 20, 2005 is RMB3,600 per month. The rent from November 21, 2005 to November 20, 2010 may be adjusted within 5% of the original rent. Starting from July 21, 2006, the rent has been adjusted to RMB 3,780 per month.



**Item 3. Legal Proceedings**

We have no pending legal proceedings. From time to time, we may be involved in various claims, lawsuits and disputes with third parties, actions involving allegations of discrimination or breach of contract actions incidental to the normal operations of the business.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock has been traded on the NYSE AMEX under the symbol "CPHI" from September 30, 2009. The following table sets forth the price representing the range of high and low closing sale prices for our common stock as reported during the fiscal years ended December 31, 2008 and 2009.

<b>Quarter Ended</b>	<b>High</b>	<b>Low</b>
2009		
4th Quarter	\$3.93	\$2.93
3rd Quarter	\$3.40	\$1.45
2nd Quarter	\$1.86	\$1.31
1st Quarter	\$1.37	\$1.13
2008		
4th Quarter	\$2.05	\$1.10
3rd Quarter	\$2.29	\$1.42
2nd Quarter	\$2.83	\$1.84
1st Quarter	\$3.09	\$2.07

As of March 3, 2010, the closing price of our common stock on the NYSE AMEX was \$3.69. As of March 3, 2010, the stockholders' list for our common stock showed 160 registered shareholders of record, which figure does not take into account those stockholders whose certificates are held in the name of broker-dealers or other nominees.

**Dividend Policy**

Since inception, we have not paid, nor declared, any dividends and we do not intend to declare any such dividends in the foreseeable future. Our ability to pay dividends is subject to limitations imposed by Delaware law and the laws of the PRC.

**Transfer Agent**

The Transfer Agent and Registrar for our common stock is Securities Transfer Corporation, 2591 Dallas Parkway, Suite 102, Frisco, Texas 75234 and its telephone number is 469.633.0100.

## **Recent Sales of Unregistered Securities**

On February 1, 2007, we completed an offering pursuant to a Subscription and Registration Rights Agreement (“Agreement”) with 17 accredited investors in connection with a private placement of 2,505,882 shares of the Company's common stock at \$1.7 per share (the “2007 Private Placement”). Pursuant to the Agreement, the investors also received three-year warrants to purchase an aggregate of 1,252,941 shares of Company's common stock at \$2.38 per share. In December 2007, the Company received proceeds of \$119,000 upon the exercise of warrants to purchase 50,000 shares of common stock. The remaining warrants issued in conjunction with the offering to buy 1,202,941 shares of common stock have not been exercised at December 31, 2007 or 2008.

On May 30, 2008, the Company completed an offering of units priced at \$2.00 per unit consisting of one share of the Company's common stock and a warrant to purchase one-quarter of a share of the Company's common stock with an exercise price of \$2.80 per share (“2008 Private Placement”). The Company issued an aggregate of 5,000,000 shares of common stock and issued three-year warrants to purchase an aggregate of 1,250,000 shares of Company's common stock to 17 accredited investors. In addition, the placement agent in the transaction was issued three-year warrants to purchase 300,000 shares of common stock at an exercise price of \$2.98 per share.

On June 24, 2008, the Company issued to FirsTrust Group, Inc. three-year warrants to purchase 75,000 shares of the Company's common stock at \$2.80 per share and three-year warrants to purchase 75,000 shares of the Company's common stock at \$3.60 per share. The Company issued the above warrants as equity compensation under the Consulting Agreement and the Supplementary Agreement entered into between the Company and FirsTrust China Ltd. (the wholly-owned subsidiary of FirsTrust Group, Inc.).

On the same date, the Company issued to Hayden Communications International, Inc. three-year warrants to purchase 25,000 shares of the Company's common stock at \$3.00 per share and three-year warrants to purchase 25,000 shares of the Company's common stock at \$3.50 per share. The Company issued the above warrants as equity compensation under the Investor Relations Consulting Agreement entered into between the Company and Hayden Communications International, Inc.

On December 24, 2008, the Company issued to Hayden Communications International, Inc. three-year warrants to purchase 8,333 shares of the Company's common stock at \$3.0 per share and three-year warrants to purchase 8,333 shares of the Company's common stock at \$3.5 per share. The Company issued these warrants as part of the equity compensation under the Investor Relations Consulting Agreement, which was terminated by the Company in August 2008.

On October 13, 2009 the Company issued options to purchase 100,000 shares of common stock at an exercise price of \$2.75 per share to Frank Waung, the Chief Executive Officer of the Company pursuant to its 2009 Stock Option Plan. The option vests in two equal tranches on April 28, 2010 and September 30, 2010 and expire two years from the respective vesting dates.

## **Item 6. Selected Financial Data**

This report does not include information described under Item 301 of Regulation S-K pursuant to the rules of the Securities and Exchange Commission that permit “smaller reporting companies” to omit such information.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following should be read in conjunction with China Pharma Holdings, Inc.'s ("China Pharma" or "the Company") consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

This filing contains forward-looking statements. The words "anticipated", "believe", "expect", "plan", "intend", "seek", "estimate", "project", "could", "may" and similar expressions are intended to identify forward-looking statements. These statements include, among others, information regarding future operations, future capital expenditures, and future net cash flow. Such statements reflect management's current views with respect to future events and financial performance and involve risks and uncertainties, including but not limited to changes in general economic and business conditions, changes in foreign, political, social, and economic conditions, regulatory initiatives and compliance with governmental regulations, the ability to increase market share, and various other matters, many of which are beyond China Pharma's control. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove to be incorrect, actual results may vary materially and adversely from those anticipated, believed, estimated or otherwise indicated. Consequently, all of the forward-looking statements made in this filing are qualified by these cautionary statements and there can be no assurance of the actual results or developments.

China Pharma Holdings, Inc. is a fast growing pharmaceutical company dedicated to providing high-quality generic and branded pharmaceutical products for a wide range of high incidence and high mortality conditions in China. We have a strong focus on bringing new and first-to-market generic medicines to market through in-house R&D and also through the purchasing of medical formulas from many institutions. Over the past 16 years we have successfully commercialized 20 products with approvals from the State Food and Drug Administration of China (the "SFDA").

Our diverse portfolio includes products for treatment of central nervous system diseases, cerebral and cardio vascular disorders, infectious diseases and respiratory and digestive illnesses. The Company's cost-effective, high margin business model is driven by market demand and supported by eight scalable Goods Manufacturing Practice ("GMP") certified production lines covering our major dosage forms or products. Our broad and expanding distribution network covers 30 provinces and municipalities in China. Hainan Helpson Medical & Biotechnology Co., Ltd ("Helpson"), located in Haikou City in Hainan Province, China, is our main operating unit and wholly owned subsidiary. China Pharma is registered in the state of Delaware, USA.

**Strong Revenue Growth and High Margins** - We have experienced very rapid growth in sales of our therapeutics. Historically, our gross profit margin has been above 40%. Our comparatively flat marketing and selling network and distribution system has enabled us to keep our net income margin (net income as a percentage of total revenue) above 30%. We are able to compete in the highly competitive pharmaceutical industry through our diversified product line, cost control measures and a strong sales network. Our experienced management team with sharp market insights and the strong in-house and collaborative third-party research resources enable us to establish and launch new products based on market demand.

**Proven Record of Success** - We have a proven track record of success. Our core strength as a company is our ability to commercialize research results. We first identify key therapeutic areas and the compounds with the highest potential. We then manage the process to commercialize the medicine so we can produce and sell to doctors and hospitals. We keep our focus on the largest segments of China's pharmaceutical market. We have a portfolio of over 30 specifications of drugs that focus on the treatment of: CNS, cardiovascular, cerebrovascular, infectious diseases and other therapeutic areas of high incidence in China. In addition, our growth strategy is supported by the needs of a dynamic pharmaceutical industry and should benefit from government reforms to increase the population covered by national medical insurance.

We also have eight different types of modern production lines with capacity to meet our current and future demands. Our facilities received five-year Good Manufacturing Practices (GMP) re-Certification from the SFDA during 2008.



**Clear Strategy for Growth** – We are positioned in a rapidly growing industry in the fastest growing economy in the world. Within the Chinese economy, as medical care expenditures represent only about 4.5% of the Chinese GDP (compared to 15% in the United States), the healthcare segment will experience faster growth. Furthermore, the recently announced Healthcare Reform in China implies significant additional revenue opportunities for pharmaceutical enterprises supported by government initiatives. The increase in demand from these sources should allow us to grow organically at a healthy pace. Aside from our current portfolio of products, new products from our pipeline (such as Candesartan and the generic version of Crestor, or Rosuvastatin) present us with very healthy growth opportunities once these products come on line.

Finally, the Healthcare Reform will change the current landscape of the Chinese pharmaceutical industry which we think will create many attractive acquisition opportunities. We plan to use these opportunities to the fullest extent possible and hope to continue our rate of growth in the future.

As of December 31, 2009, in addition to our robust portfolio of 20 commercialized products, we had nine drugs at different stages of registration process, including three which had passed SFDA technical analysis and entered clinical trials (including a new anti-drug-resistance antibiotic product), and three drugs waiting for SFDA production approval.

We received SFDA approval to enter clinical trials for Candesartan – a front-line therapy in the treatment of hypertension during 2009. The clinical program has finished in January of 2010 and we have submitted an application for production.

In addition to these products, we have several others pending SFDA technical review and plan to initiate additional clinical trials in 2010 that focus on our main therapeutic areas. We are also evaluating additional opportunities on an ongoing basis, directed by the organic growth and market demands of China's pharmaceutical market. We are working closely with several pharmaceutical research institutions and remain focused on creating a steady increase in revenue. Through strategic mergers and acquisitions (M&A) and through capitalization of this fragmented market, we will improve our product portfolio and push our integrated growth; maintain and develop new marketing channels; and use our existing retailing network in the newly expanded market to raise our overall market share. The organic growth of the Chinese pharmaceutical market has already and will continue to direct the company's development.

## **I. Summary of twelve months ended December 31, 2009**

For the 12 months ending December 31 2009, the company continued to show healthy growth and excellent financial performance. The increase in company revenue exceeded 21%, reaching approximately \$61.7 million, compared with \$51.0 million in 2008. This growth is accounted for by increases in sales of existing products, and increases in the share of sales by new products. This is consistent with China Pharma's strategy to launch new products in an increasingly competitive market, and further penetrating the domestic market.

Net income for 12 months ended December 31, 2009 was \$20.23 million, an increase of \$2.4 million compared to \$17.83 million in the previous 12 months period. This is an increase of 13%. Our 2009 net income to revenue margin was at 33% compared to 35% from the previous year.

Cashflow from operations for the 12 months ended December 31, 2009 was \$10.67 million compared to \$6.54 million in 2008. This is an increase of 63%. The improvement in cashflow from operations was mainly the result of better collection performance from account receivables and also higher net income in 2009.

Earnings per common share for the 12 months ending December 31, 2009 reached \$0.48 per share compared to \$0.44 per share for the 12 months ending December 31, 2008.

## II. Business Overview & Recent Developments

China Pharma continued to execute its successful business strategy of expanding our core portfolio of products by adding two new products during the year. In 2009, we launched two new products: Tiopronin in the second quarter and Omeprazole Sodium in the fourth quarter. Tiopronin treats acute Hepatitis B and drug-induced liver damage. Omeprazole Sodium is widely utilized to treat gastroesophageal reflux disease (GERD), and is highly effective in other conditions caused by excess acidic formulations in the stomach. Sales of the new products have met or exceeded our initial plans.

The products in our pipe-line are also moving along as we expected or better. The clinical trial for Rosuvastatin, or generic of Crestor, is progressing rapidly with more patients wanting to participate in our program than we have quotas for. Our clinical trial for the new antibiotic combination drug is progressing as planned. In early 2010 we have completed the clinical trials for Candesartan, the high blood pressure drug. We have submitted a production approval application to the SFDA for Candesartan in early 2010.

Here are some recent milestones for our company:

- January 2009: Liver disease product, Tiopronin, received SFDA production approval.
- February 2009: Anti-hypertension drug, Candesartan, received SFDA approval to enter clinical trials.
- June 2009: Rosuvastatin (a generic form of Crestor, for indication of high blood cholesterol level), received SFDA approval to enter clinical trials.
- August 2009: Omeprazole Sodium injections (a generic form of a well-know PPI) received SFDA production approval.
- September 2009: China Pharma began trading on NYSE/Amex under the ticker symbol of “CPHI”.

## III. Market Trends

The growth of China’s pharmaceutical market is driven by China’s rapid economic growth. Increased healthcare spending by the Chinese government to reform the healthcare system has already greatly improved the accessibility to and desire for medical care. Important additional factors include: the aging of the population and the resulting increase in age-related disorders; the urban migration of the population; and improved awareness of self-health care. Credit Suisse estimates that Chinese pharmaceutical market will grow at a compounded annual growth rate of 15.5% from 2008 to 2015, stemming from 2008 market size base of \$32 billion.

The recent Healthcare Reform program announced by the Chinese government will have a real and significant impact on all healthcare related industries in China, including the pharmaceutical industry. Over all, the government plans to provide a basic, universal healthcare system to all citizens of China. While the government was slow to announce specifics of the plan, the recent release of the final Essential Drug List (the “EDL”) was the first major concrete step to implement the reform. The implementation of the EDL is expected to be phased in next few years gradually, and products on the EDL are expected to experience an increase in volume while having their margins lowered. That being said, the price adjustments announced by the government have been milder than the market originally anticipated. It is also important to realize that the government wants to set a pricing range target (high and low), in making sure that the prices of essential drugs are affordable on the one hand, and allow drug companies a fair profit on the other. We believe the effect of the Reform will be significant if not immediate. We are making ourselves more nimble and are ready to modify our strategies to the new environment when it becomes a reality. We are adjusting our sales and marketing strategy, to further penetrate the lower-tier healthcare facilities market which is one of the focuses of the current Healthcare Reform.



**IV. Analysis for the twelve months ended December 31, 2009****Results of Operations**

	12 Months ended December 31	
	2009	2008
Revenue	\$ 61,696,620	\$ 50,968,660
Cost of Revenue	36,046,259	25,678,239
Gross Profit	25,650,361	25,290,421
Selling Expenses	2,705,550	2,040,596
General and Admin Expenses	2,146,781	1,671,715
Bad Debt Expense (Benefit)	(1,816,785)	1,847,806
Income from Operations	22,614,815	19,730,304
Interest Income	30,395	45,168
Interest Expense	(154,182)	(131,027)
Income Tax Expense	2,261,519	1,707,618
Net Income	\$ 20,233,049	\$ 17,833,650
Net Income per Share	\$ 0.48	\$ 0.44

**Revenue**

The first half of 2009 was challenging for most pharmaceutical companies in China because of the uncertainties generated by the pending release of the Essential Drug List with the unknown pricing implications. Sales were somewhat anemic across the various segments of the industry before the EDL was finally released on Aug. 18, 2009. Once the EDL was released and the announced pricing bands being better than expected, sales generally improved in the second half of the year.

Sales revenue for China Pharma for the 12 months period ended December 31<sup>st</sup> 2009 was \$61.7 million, an increase of 21% compared to \$51.0 million for the same period in 2008. Leading the way in revenue growth is our Anti-Viro & Respiratory product category, which generated \$24.7 million in sales compared to \$18.9 million a year ago, a rise of 31%. Within this category, antibiotics products showed the greatest strengths. Our Digestive product category sales also rose strongly to \$4.8 million from \$2.2 million, a rise of \$2.6, or an increase of 114%. Sales of the Digestive category were boosted by the two new drugs Tiopronin and Omeprazole Sodium, which we began selling in Q2 and Q4 of 2009, respectively. Our CNS, Cardio & Cerebral Vascular category remained stable in 2009, generating \$21.5 million of sales, compared to \$22.2 in the previous year. This is a drop of 3%. We expect this category to regain its past vigor once Candesartan is launched (expected later in 2010). Finally, sales of the Others category rose to \$10.7 million from \$7.6 million, a gain of \$2.9 million, or 41%.

While changing, revenue breakdown by product category is still similar to the previous years. Sales of the Anti-Viro & Respiratory represented 40% of total sales in the 12 months period ended on December 31, 2009, compared to 37% in 2008, a gain of 3%. CNS, Cardio & Cerbral Vascular category represented 35% of total revenue compared to last year's 44%, a drop of 9%. Digestive category in 2009 represented 8% of total revenue compared to 4%, and the Other's category went from 15% in 2008 to 17% in 2009. Again, we have a diversified portfolio of products with no single product representing more than 11% of total revenue.

**Cost of Revenue**

The cost of revenue for the 12 months period ending December 31 2009 was approximately \$36.0 million or 58% of total revenue, increasing \$10.37 million compared to 2008, which was approximately \$25.68 million or 50% of total

revenue.

## **Gross Profit**

Gross profit for the 12 months period ending December 31 2009 was \$25.65 million and the gross profit margin was 42%. For the same period in 2008 gross profit was \$25.29 million with gross margin being 50%. From a product-sales structure perspective, we sold more lower-margin products in 2009 compared to 2008, including products that are listed on the EDL. Going forward we expect gross margin to balance out more evenly as some of our higher margin products (such as newly launched Tiopronin and Omeprazole Sodium) achieve higher sales volume as they ramp up.

## **Selling Expenses**

The selling expenses for the 12 months period ending December 31 2009 were approximately \$2.71 million, accounting for 4.39% of the total year's revenue. In 2008, the selling expense was approximately \$2.04 million, accounting for 4% of the year's revenue. Overall selling expense to revenue ratio is stable.

## **G & A Expenses**

The general and administrative (G&A) expenses for the 12 months period ending December 31 2009 were approximately \$2.15 million, accounting for 3.48% of revenue. The G&A expenses for 2008 were approximately \$1.67 million, accounting for 3.28% of revenue.

## **Bad Debt Expenses (Benefit)**

As to the peculiarity of the Chinese pharmaceutical market environment, deferred payments to pharmaceutical companies by state-owned hospitals and local medicine distributors are a normal phenomenon. Over 90% of our drugs are sold to state-owned hospitals and local medicine distributors, which creates slow collections of our trade receivables. Since the majority of hospitals in China are backed by the government, management believes that the deferred payments from state-owned hospitals are secure and will eventually be collected. So far, China Pharma has not lost any receivables in its 16 years history of doing business with hospitals.

Because we have comparatively long receivable cycles, management had set very conservative bad debt allowance estimates in our early years as a public company. Over the past few years, our collection record has been good with no record of losing any receivables. During 2009, we reviewed our bad debt allowance estimate for accounts receivable to align our estimates to be more in line with our experience and also industry collection standards. After analyzing a number of factors including macro economy and industry bad debt experience rates, management revised bad debt allowance estimates and adjusted our bad debt allowance down to \$2.4 million from \$5.2 million during the third quarter of 2009. This represented a bad debt benefit of \$2.8 million. Currently we continue to record allowances for bad debts based on age of outstanding accounts receivables at the end of the period. The percentage of a trade receivable that is deemed doubtful is as follows: 100% after 720 days; 10 % after 360 days; and 3.5% up to 360 days. We believe that this kind of bad debt allowance percentage would allow us to correctly account for any contingent bad debt risk.

For the twelve months period ending December 31, 2009, we realized a Bad Debt benefit of \$1.82 million while in the same period in 2008 we recorded a Bad Debt expense of \$1.85 million. As of December 31, 2009, our total allowance for bad debt is \$2,721,914.

## **Income from Operation**

The operating income for the year ended December 31, 2009 is approximately \$22.61 million, compared to \$19.73 million of the same period of 2008, an increase of \$2.88 million. The main reasons for the increase are higher gross profits and also the change in estimate on bad debt allowance in 2009.



**Interest Income**

Income from interest for the year ended December 31, 2009 was \$30,395, a decreased of \$14,773 from the previous year.

**Interest Expense**

Interest expense for the year ended December 31, 2009 was \$154,182, compared to \$131,027 of the same period of 2008, an increase of \$23,155.

**Income Tax Expense**

In the year ended December 31, 2009 we paid income tax at the rate of 10%. Income tax expense for the year ended December 31, 2009 was roughly \$2.3million, compared to \$1.7million for the year ended December 31, 2008. We expect next year's Income Tax rate to be 11%.

**Net Income**

The net income for the twelve months ended December 30, 2009 was \$20.23 million, which was \$2.4 million higher than that for the twelve months period ended December 30, 2008, of approximately \$17.83 million. This is an increase of about 13%.

For the twelve months ended December 30, 2009, earnings per common share is \$0.48 per share, compared to \$0.44 of the twelve months of 2008. The number of weighted average outstanding shares used to calculate earnings per share were 42,279,663 for 2009 and 40,216,096 for 2008.

**V. Financial Analysis****Cashflows for 12 Months ended December 31, 2009 and 2008**

	12 Months ended December 31st	
	2009	2008
Net Cash Provided (Used by) Operating Activities	\$ 10,668,926	\$ 6,543,260
Net Cash Used in Investing Activities	(15,360,709)	(10,441,249)
Net Cash Provided by Financing Activities	1,385,622	8,881,132
Effect of Exchange Rate change on Cash	13,765	113,671
Cash & Equivalent Beginning Balance	6,927,149	1,830,335
Cash & Equivalent Ending Balance	\$ 3,634,753	\$ 6,927,149

**Cash flow Analysis**

As of December 31, 2009, the company possessed cash and cash equivalents of \$3,634,753, which represents 3.6% of total assets; compared with \$6,927,149 in the same period for 2008, which represented 9.2% of the total assets. Compared with the position of December 31, 2008, this is a decrease of approximately \$3.29 million. Although we generated more cash from operations in 2009 than in the previous year, payments in acquisition of intangible assets increased even more. The result is a lower cash balance at year end.



On December 31, 2009, the working capital was approximately \$60.79 million, an increase of \$6.63 million from the December 31, 2008, which was \$54.16 million. The main reason for the increase was the increase in account receivables.

In the year ended December 31, 2009, net cash flow from operating activities rose to \$10.67 million, an increase of 63% over the \$6.54 million for the same period in 2008. The main reasons for the improvement in operating cash flow were faster collection of accounts receivables and an increase of net income in 2009.

In the year ended December 31, 2009, cash used for investing activities was approximately \$15.36 million, an increase of approximately \$4.92 million, compared to the \$10.44 million for the same period in 2008. The increase in investment spending in 2009 was mainly the results of higher payments related to our intangible asset purchase programs. In addition to the on-going spending on various products in our pipe-line, final payments were made for a number of new products programs (Tiopronin and Omeprazole) that came to fruition during the year.

In the year ended December 31, 2009, net cash flow generated from financing activities was approximately \$1.39 million compared to \$8.8 in the same period of 2008. The main source of the 2008 financing came from the Company's offering of equity units in May of 2008 which generated net proceeds amounted to \$9.27 million. In 2009, the company increased its short term bank lending facility by approximately \$1.36 million.

## **VI. Conclusion**

The overall performance during the year ended December 31, 2009 was very good. In a year that is marked by a high degree of uncertainty in our industry, we managed to maintain our high profitability goals (net income margin at 33%) while growing our sales revenue by more than 20%. Furthermore, we continue to make steady progress on account receivables collection which resulted in a substantial increase in cashflow from operations. Although management is pleased with our results in 2009, we continue to strive to improve our operations as we move into 2010 and preparing for new challenges. Looking ahead, we see exciting times coming up as some of our most promising pipe line products are getting closer to the finish line.

As a public company in the pharmaceutical industry, we focus on product innovation. In order to create products that are innovative and tailored to the end user, we must concentrate on additional, innovative cooperative engagements with special R&D institutions for more market-ready products. As a result, the Company will continue to actively pursue the development and distribution of high-quality products. The pharmaceutical industry has been called an "industry of eternal sunrise", and China Pharma Holdings, Inc. believes that our strategy and the sustained growth in revenue will ensure our continued success.

## **Off-Balance Sheet Arrangements**

As of the date of this annual report, the Company does not have any off-balance sheet arrangements.

## **Critical Accounting Policies and Estimates**

We prepare our Consolidated Financial Statements in accordance with accounting principles generally accepted in the U.S. In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues, and expenses, as well as related disclosure of contingent assets and liabilities. In some cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates, which we discuss further below.



*Allowance for doubtful accounts*

We calculate the allowance for doubtful accounts based on detailed review of certain individual customer accounts and an estimation of the overall economic conditions affecting our customer base. We review a customer's credit history before extending credit. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. A provision is made against accounts receivable to the extent they are considered unlikely to be collected. It is common practice in the PRC for receivables to extend beyond one year. Included in trade receivables is approximately \$12,730,761 that occurred more than one year from December 31, 2009, but is estimated to still be collectable.

During the fiscal 2009, we determined that our previous estimates of uncollectible accounts receivable were not realized. As a result, we revised our estimate of the allowance for doubtful accounts at December 31, 2009 to \$2,718,358 based on an analysis of the economy and the industry's bad debt experience rate. The change in the estimate resulted in a bad debt benefit during year ended December 31, 2009 of \$1,816,785.

*Intangible Assets*

Our acquisition costs on patents, trademarks, licenses, techniques, formulas and other intangibles are capitalized and amortized using the straight-line method over their useful lives. For those intangible assets, such as patents, with legal protection over a period, their useful life is the protected period. Others that do not have legal protection periods are amortized generally over 5 to 10 years. We do not capitalize internally generated intangible assets. Our intangible assets consist of techniques (formulas and manufacturing processes) for medicines.

*Recently Enacted Accounting Standards*

In June 2009, the Financial Accounting Standards Board (the FASB) issued authoritative guidance on the consolidation of variable interest entities, which is effective for us in the first quarter of 2010. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We believe adoption of this new guidance will not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued accounting guidance which will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity", changes the requirements for derecognizing financial assets, and requires additional disclosures. This guidance will be effective in the first quarter of 2010. We believe adoption of this new guidance will not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued a new accounting standard which provides guidance for arrangements with multiple deliverables. The new standard requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In addition, the new standard eliminates the use of the residual method of allocation and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables. In October 2009, the FASB also issued a new accounting standard which changes revenue recognition for tangible products containing software and hardware elements. If certain requirements are met, revenue arrangements that contain tangible products with software elements that are essential to the functionality of the products are scoped out of the existing software revenue recognition accounting guidance and will be accounted for under the multiple-element arrangements revenue recognition guidance discussed above. Both standards will be effective for us in the first quarter of 2011. Early adoption is permitted. We do not expect the adoption of these accounting standards will have a material impact on our consolidated financial statements.



In January 2010, the FASB issued guidance requires an entity to disclose the following:

- Separately disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe reasons for the transfers.
- Present separately information about purchases, sales, issuances and settlements, on a gross basis, rather than on one net number, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3).
- Provide fair value measurement disclosures for each class of assets and liabilities.
- Provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for fair value measurements that fall in either Level 2 or level 3.

This guidance is effective for us in the first quarter of 2010, except for the disclosures about purchases, sales, issuance and settlement on the forward of activity in Level 3 fair value measurements. Those disclosures are effective for us in the fiscal year 2011. We do not expect the adoption of these accounting standards will have a material impact on our consolidated financial statements.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

This report does not include information described under Item 305 of Regulation S-K pursuant to the rules of the Securities and Exchange Commission that permit “smaller reporting companies” to omit such information.

#### **Item 8. Financial Statements and Supplementary Data**

The Financial Statements and supplementary data are listed in the Index to Financial Statement starting from page F-1 of this report.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

None.

#### **Item 9A. Controls and Procedures**

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 is (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (2) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, as of the end of the fiscal year covered by this Annual Report on Form 10-K, we have carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at December 31, 2009.

There have been no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fourth quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our internal control over financial reporting as of December 31, 2009, based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on our evaluation under the framework in Internal Control – Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2009.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report on Form 10-K. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

The management's assessment of internal controls over financial reporting was not subject to auditor attestation as of December 31, 2009 pursuant to temporary rules of the Securities and Exchange Commission. Accordingly, this Annual Report does not include an attestation report by our independent registered public accounting firm regarding internal control over financial reporting.

### **Changes in Internal Controls over Financial Reporting**

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 promulgated under the Exchange Act that occurred during the last fiscal quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B – Other Information**

None.

**PART III****Item 10. Directors, Executive Officers and Corporate Governance****Directors and Executive Officers**

The following table sets forth the name and position of our current directors and executive officers:

<b>Name (1)</b>	<b>Age</b>	<b>Position</b>
Zhilin Li	57	Director, President and Chief Executive Officer
Frank Waung	45	Chief Financial Officer
Heung Mei Tsui	53	Director
Gene Michael Bennett	62	Independent Director
Yingwen Zhang	65	Independent Director
Baowen Dong	69	Independent Director
Jian Yang	55	Secretary

**Biographies of Officers and Directors**

Set forth below is a brief description of the background of our officers and directors based on information provided by them to us.

**Zhilin Li:** Ms. Li is the director, President and Chief Executive Officer (“CEO”) of the Company. She is a founder of Helpson, and has served as chairman and CEO of Helpson since 1993. Ms. Li was formerly the president of Haikou Bio-engineering Institute, and the vice president of the Sichuan Institute of Biology. She graduated from Sichuan University, where she majored in biology, and later became an instructor.

**Frank Waung:** Mr. Waung has served as the Chief Financial Officer (“CFO”) of the Company since April 28, 2009. Mr. Waung worked for Hickey Freihofner Capital as an investment banker with China focus from 2008 till April 28, 2009. Mr. Waung worked for Dellacamera Capital Management as a special situation analyst in 2007. Mr. Waung acted as a senior market economist in Cowen & Co. from 2000 to 2003 and as a convertible security trader from 2003 to 2006. He worked for Credit Suisse First Boston as a quantitative marketer from 1994 to 1998. Mr. Waung received his bachelor’s degree from University of California in 1988 and received his master’s degree in business administration from the Wharton School at University of Pennsylvania in 1994.

**Heung Mei Tsui:** Ms. Tsui has served as a member of our board of directors since April 28, 2009. Ms. Tsui had been a member of the Company’s Board from October 19, 2005 to February 1, 2008. Ms. Tsui is a self-employed businesswoman engaged in the international trading and strategic investment. She graduated from Hunan Financial & Economic College in 1982.

**Gene Michael Bennett:** Mr. Bennett has served as a member of our board of directors as an independent director since February 1, 2008. Mr. Bennett is presently a partner of Beijing Nexis Investment Consulting Corporation which provides management consulting services to Chinese companies. From 2000 to 2004, he acted as partner of ProCFO Company. Prior to that, he served as CFO and a Board Member in Argonaut Computers. Mr. Bennett worked as professor of accounting, taxation and auditing at several universities including California State University, Chapman University, University of Hawaii and Chaminade University. Mr. Bennett is a graduate of Michigan State University and Michigan University. He is also a Doctor of Business Administration (DBA) candidate in Corporate Governance

at City University of Hong Kong.



**Yingwen Zhang:** Mr. Zhang has served as a member of our board of directors as an independent director since February 1, 2008. Mr. Zhang graduated from Department of Chemical Engineering, Tianjin University in 1967. He worked as the CEO of Sinopec Sichuan Vinylon Works from 1983 to 1988 and worked as the director of Sichuan Foreign Trade and Economic Cooperation Bureau (The Bureau of Commerce of Sichuan Province) from December 1988 to April 2000. Since then, he has acted as the Economic and Commercial Counselor's Office of the Embassy of the People's Republic of China in Malaysia. Mr. Zhang currently is the member of the 9th Chinese People's Political Consultative Conference (CPPCC).

**Baowen Dong:** Mr. Dong has served as a member of our board of directors as an independent director since February 1, 2008. Mr. Dong graduated from Xi'an University of Science and Technology in 1966. He is the professor, researcher, director of the staff room, and the department head in Sichuan University since 1974. He is also an expert member of the Sichuan University Teaching Evaluation Council since August 2001.

**Jian Yang:** Ms. Yang has been the Secretary of the Company since October 19, 2005. She is a founder and director of Helpson. Ms. Yang was a technician at the Sichuan Institute of Biology in 1990 and vice president of Haikou Biomedicine Engineering Co., Ltd. in 1991. Ms. Yang obtained her MBA degree at the University of Wales, England.

### **Board Composition**

Since April 28, 2009, the board of directors has been composed of Zhilin Li, Heung Mei Tsui, Gene Michael Bennett, Yingwen Zhang and Baowen Dong. All board actions require the approval of a majority of the directors in attendance at a meeting at which a quorum is present.

### **Policy Regarding Board Attendance**

Our directors are expected to attend Board meetings as frequently as necessary to properly discharge their responsibilities and to spend the time needed to prepare for each such meeting. Our directors are expected to attend annual meetings of stockholders, but we do not have a formal policy requiring them to do so.

### **Committees**

The three independent directors, Gene Michael Bennett, Yingwen Zhang and Baowen Dong have served on the Audit Committee since February 1, 2008. Mr. Bennett, the Chairman of the Audit Committee, is an audit committee financial expert serving on the Audit Committee. For more specific information concerning the role, independence and responsibilities of our Audit Committee, please refer to Exhibit 99.1 to this Form 10K for our Audit Committee Charter adopted by our board of directors on February 10, 2008.

The Company established the Nominating and Compensation Committee of the Board of Directors on August 26, 2009. The Committee now consists of the following three independent directors: Yingwen Zhang, Gene Michael Bennett and Baowen Dong. Mr. Zhang has been selected as the Chairman of the Nominating and Compensation Committee. For more specific information concerning the role and responsibilities of our Nominating and Compensation Committee, please refer to Exhibit 99.2 to this Form 10K for the Charter of the Nominating and Compensation Committee adopted by our board of directors on August 26, 2009.

### **Audit Committee Report**

The following Audit Committee Report does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing of ours under the 1933 Act or the Exchange Act, except to the extent we specifically incorporate this Report by reference therein.

In accordance with its written charter, the Audit Committee oversees our financial reporting process on behalf of our Board of Directors. Management has the primary responsibility for our consolidated financial statements and the overall reporting process, including our system of financial controls. In fulfilling its oversight responsibilities during fiscal 2009, the Audit Committee:

- Discussed the quarterly and year-to-date financial information contained in each quarterly earnings announcement with senior members of our financial management and Hansen, Barnett & Maxwell, P.C., independent auditors, prior to public release;
- Reviewed our audited consolidated financial statements as of and for the year ended December 31, 2009, as well as the quarterly unaudited consolidated financial statements and earnings release with senior members of our financial management and Hansen, Barnett & Maxwell, P.C.;
- reviewed with our financial management and Hansen, Barnett & Maxwell, P.C. their judgments as to the quality, not just the acceptability, of our accounting principles;
- discussed with Hansen, Barnett & Maxwell, P.C. the overall scope and plan for their audit;
- reviewed our financial controls and financial reporting process;
- reviewed significant financial reporting issues and practices, including judgmental items, change in accounting principles and disclosure practice; pre-approved all services performed by Hansen, Barnett & Maxwell, P.C.; met with Hansen, Barnett & Maxwell, P.C., without management present, to discuss the results of their examinations, their evaluation of the effectiveness of internal control over financial reporting; and met with our financial management, without Hansen, Barnett & Maxwell, P.C. present, to discuss the quality of services provided by Hansen, Barnett & Maxwell, P.C.

In addition, the Audit Committee has discussed with Hansen, Barnett & Maxwell their independence from management and our company, including the matters in the written disclosures required by Hansen, Barnett & Maxwell rules regarding communications with audit committees regarding independence and other required communications, and considered whether the provision of all other non-audit services provided to us by Hansen, Barnett & Maxwell during fiscal 2008 was compatible with the auditors' independence.

In reliance on the reviews and discussions referred to above and representations by management that the consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles, the Audit Committee recommended to our Board of Directors that our consolidated financial statements be included in this annual report on Form 10-K for the fiscal year ended December 31, 2009 for filing with the Commission. The Audit Committee selected Hansen, Barnett & Maxwell as our independent auditors for the fiscal year ending December 31, 2010.

#### **Limitation of Liability and Indemnification of Officers and Directors**

With certain exceptions, our Certificate of Incorporation, as amended, eliminates any personal liability of directors or officers to us or our stockholders for monetary damages for the breach of such person's fiduciary duty to the extent permitted by law. We have also adopted an Amended and Restated By-laws which provide for indemnification of directors and officers.

There are presently no material pending legal proceeding to which any of our directors, officers, or employee is a

party. There is no pending litigation or legal proceeding involving one of our directors, officers, employees or other agents as to which indemnification is being sought, and we are not aware of any pending or threatened litigation that may result in claims for indemnification by any director, officer, employee or other agent.

**Director Compensation**

Name	Fees earned		Nonqualified				Total
	or paid in cash	Stock awards	Option awards	Non-equity incentive plan compensation	deferred compensation earnings	All other compensation	
(a)	(\$)(b)	(\$)(c)	(\$)(d)	(\$)(e)	(\$)(f)	(\$)(g)	(\$)(h)
Heung Mei Tsui (1)	16,000	—	—	—	—	—	— 16,000
Gene Michael Bennett	16,000	—	—	—	—	—	— 16,000
Yingwen Zhang	5,865	—	—	—	—	—	— 5,865
Baowen Dong	5,865	—	—	—	—	—	— 5,865

(1) The Company will pay the annual cash compensation to Ms. Tsui at the amount of \$16,000 in about May 2010.

Our three independent directors are entitled to the following compensation under the engagement letter: Mr. Bennett's compensation consists of \$16,000 per year, payable quarterly within 5 days of the start of the quarter, and 5,000 warrants of common stock with an exercise price of \$3.32 per share; Mr. Zhang and Mr. Dong are each entitled to RMB40,000 (approximately \$5,865) annually, payable quarterly within 5 days of the start of the quarter.

The three independent directors received the above cash compensation during the fiscal year ended December 31, 2009. No equity compensation has been awarded to Mr. Bennett till the date of this Form 10-K. We currently reimburse directors for travel expenses associated with their work for the company but our internal directors currently do not receive any other compensation in the capacity of directors.

**Family Relationships**

There are no family relationships among our directors or executive officers.

**Section 16(a) Beneficial Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our officers and directors, and persons who own more than ten percent of a class of our capital stock, to file reports of ownership and changes in their ownership with the Securities and Exchange Commission. These persons are required to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms received by us, we believe that during the year ended December 31, 2009; all persons subject to Section 16(a) filing requirements have filed on a timely basis reports required to be filed by Section 16(a) of the Exchange Act.

**Code of Ethics**

On July 8, 2008, we adopted a code of business conduct and ethics for all directors and employees (including officers) within the meaning of the regulations adopted by the Commission under section 406 of the Sarbanes - Oxley Act of 2002. The code has been designed to deter wrongdoing and promote: honest and ethical conduct, including the ethical

handling of actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Commission and in other public communications made by us; compliance with applicable governmental laws, rules and regulations; the prompt internal reporting of violations of the code to an appropriate person or persons; and accountability for adherence to the code. The application of the code to the persons it applies to may only be waived by our Board of Directors in accordance with Commission regulations and the Sarbanes - Oxley Act of 2002. A copy of the code may be obtained by sending a written request to our corporate secretary.

**Item 11. Executive Compensation**

The following table sets forth information concerning all cash and non-cash compensation awarded to, earned by or paid to our chief executive officer, chief financial officer and secretary during the last three fiscal years in all capacities to us, our subsidiaries and predecessors (collectively, the "Named Executive Officers"). No other executive officers received compensation in excess of \$100,000 during the fiscal years ended December 31, 2009 and 2008.

SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Year (b)	Salary (\$)(c)	Option	All Other	Total (\$)(j)
			Awards (\$)(f)	Compensation (\$)(i)	
Zhilin Li		\$ 117,302			\$ 117,302
Director, CEO and President (2)	2009	\$ 117,084			\$ 117,084
	2008				
	2007	\$ 104,976		—	\$ 104,976
Xinhua Wu, Former CFO and Director (3)		\$ 5,103			\$ 5,103
	2009	\$ 73,177			\$ 73,177
	2008				
	2007	\$ 65,610		—	\$ 65,610
Frank Waung, CFO (4)	2009	\$ 36,000	\$ 134,600 (1)	\$ 10,000	\$ 184,400
Jian Yang,	2009	\$ 73,314			\$ 73,314
Secretary, (5)	2008	\$ 73,177			\$ 73,177
	2007	\$ 65,610		—	\$ 65,610

(1) Represents the dollar amounts recognized in the Company's year-end 2009 financial statements for reporting purposes in accordance with SFAS 123(R). Amounts shown cover awards granted in 2009. The amounts represent the compensation costs of awards that are paid in options to purchase shares of the Company's common stock, the amounts do not reflect the actual amounts that may be realized by the named executive officer. A discussion of the assumptions used in calculating these values may be found in Note 8 to the consolidated audited financial statements.

(2) Zhilin Li has been our CEO and president since October 20, 2005. As of January 20, 2006, Zhilin Li was elected as the director of the Company.

(3) Effective April 28, 2009, Mr. Xinhua Wu resigned as our Chief Financial Officer and Director.

(4) Effective April 28, 2009, Mr. Frank Waung was elected as the Chief Financial Officer of the Company.

(5) Jian Yang has been our corporate secretary since October 20, 2005.



**Outstanding Equity Awards at Fiscal Year-End**

As of December 31, 2009, we had the following outstanding equity awards:

Name (a)	Number of securities underlying unexercised options (#) exercisable (b)	Number of securities underlying unexercised options (#) unexercisable (c)	Option awards Equity incentive plan awards:		
			Number of securities underlying unexercised options (#) (d)	Option exercise price (\$) (e)	Option expiration date (f)
Frank Waung		—		2.75	April 27, 2012
	50,000 (1)			\$	September 29,
	50,000 (2)			— \$ 2.75	2012

(1) Options are exercisable on April 28, 2010.

(2) Options are exercisable on September 30, 2010.

**Stock Options and Stock Appreciation Rights**

Plan category	Number of securities to be issued	Weighted-average exercise price of outstanding	Number of securities remaining
---------------	-----------------------------------	--	--------------------------------



	<b>upon exercise of outstanding options, warrants and rights</b>	<b>options, warrants and rights</b>	<b>available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
	(a)	(b)	(c)
Equity compensation plans approved by security holders	100,000	\$2.75	900,000
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>100,000</b>	<b>\$2.75</b>	<b>900,000</b>

Under the China Pharma Holdings, Inc. 2009 Stock Option Plan (the “Plan”), a maximum of one million shares of our common stock are available for issuance, subject to adjustment. The Plan permits the grant of options, stock appreciation rights, restricted stock, restricted stock units or other right or benefit under the Plan. The exercise price per share with respect to each option and each stock appreciation rights is determined by the administrator, provided that the exercise price per share cannot be less than the fair market value of a share on a grant date in case of an incentive share option and the exercise price per share cannot be less than eighty-five percent (85%) of the fair market value of a share on a grant date in case of a non-qualified share option. The Plan will terminate 10 years following the earlier of (i) the date it was adopted by our Board of Directors or (ii) the date it became effective upon approval by our stockholders, unless sooner terminated by our Board of Directors pursuant to the Plan. The Plan was adopted by our Board of Directors on September 2, 2008.

## **Employment Agreements**

Our subsidiary Helpson has employment agreements with the following executive officers:

Ms. Zhilin Li entered into an Employment Agreement with Helpson, which provides that Ms. Li is employed by Helpson to perform executive management. The term of her employment is from July 1, 2005 to June 30, 2010. Her annual salary is RMB800,000. Ms. Jian Yang was employed by Helpson to act as its Deputy General Manager. The term of her employment is from July 1, 2005 to June 30, 2010. Her annual salary is RMB500,000.

## **Payment of Post-Termination Compensation**

The company does not have change-in-control agreements with any of its executive officers, and the Company is not obligated to pay severance or other enhanced benefits to executive officers upon termination of their employment.

## **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth certain information known to us with respect to the beneficial ownership of our common stock as of December 31, 2009 and (i) all persons who are known to us to be beneficial owners of five percent or more of the common stock, (ii) each of our Directors, and (iii) all current Directors and executive officers as a group.

The number of shares of common stock issued and outstanding on December 31, 2009 was 42,308,350 shares. The calculation of percentage ownership for each listed beneficial owner is based upon the number of shares of common stock issued and outstanding on December 31, 2009, plus shares of common stock subject to options/warrants held by such person on December 31, 2009 and exercisable within 60 days thereafter.

<b>NAME AND ADDRESS OF BENEFICIAL OWNER (1)</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
<i>Named Executive Officers and Directors</i>		
Zhilin Li	10,000,000	23.64%
Heung Mei Tsui	10,812,651	25.56%
Jian Yang	2,278,815	5.39%
Frank Waung	2,500	0.006%
<i>Beneficial Owners of Five Percent or More</i>		
Peter Siris	2,759,120 (2)	6.52%
Guerrilla Capital Management, LLC	2,747,120 (2)	6.49%
<b><i>Total Shares Owned by Persons Named Above</i></b>	<b><u>25,853,086</u></b>	<b><u>61.11%</u></b>
<b><i>Total Shares Owned by Executive Officers and Directors</i></b>	<b><u>23,093,966</u></b>	<b><u>54.58%</u></b>

(1) The address of Ms. Li is 2nd Floor, No.17, Jinpan Road, Kaikou, Hainan Province, China. The address of Mr. Waung is 72 Great Hills Road, Short Hills, New Jersey 07078. The address of Ms. Tsui is Flat F, 3rd Fl., Mayson Garden Bldg, 68 Hing Fat St., Causeway Bay, Hong Kong. The address of Ms. Yang is 1 Haoyuan ST, RM 5B, Blog 7, Asia Luxury Garden, Haikou, Hainan Province, China. The address of Peter Siris and Guerrilla Capital Management, LLC is 237 Park Avenue, 9th Floor New York, New York 10017, United States of America.

(2) Guerrilla Capital Management, LLC (“Guerrilla”), an investment fund located in New York, beneficially owns or controls 2,747,120 shares of our common stock as disclosed in a Schedule 13G/A filed on February 16, 2010. Peter Siris is the managing director of Guerrilla, and believed to have dispositive and voting power over the securities held by Guerrilla. Besides, Peter Siris has sole voting power with respect to 12,000 shares of our common stock, and beneficially owns or controls 2,759,120 shares of our common stock in aggregate.

### **Item 13. Certain Relationships and Related Transactions**

None.

### **Item 14. Principal Accountant Fees and Services**

Hansen, Barnett & Maxwell, P.C., (“HBM”) is the Company’s independent registered accountant. All of the services described below were approved by our audit committee prior to performance. The committee has determined that the payments made to its independent accountant for these services are compatible with maintaining such auditor’s independence. The principal accountant fees of the fiscal year 2008 and the fiscal year 2009 are as follows:

	FISCAL 2008	FISCAL 2009
Audit Fees (1)	\$74,000+RMB 500,000	\$74,000+RMB 500,000
Audit-Related Fees(2)	\$ 0	\$ 0
Tax Fees(3)	\$ 0	\$ 0
All Other Fees(4)	\$ 0	\$ 0
Total	\$ 74,000+RMB 500,000	\$ 74,000+RMB 500,000

(1) During the fiscal years ended December 31, 2008 and 2009, HBM billed us \$74,000 each year in fees for professional services for the audit of our annual financial statements, review of financial statements included in our Form 10-Q quarterly reports; we paid RMB500,000 to Baker Tilly China each year for their involvements in the auditing and reviews under the supervision of HBM.

(2) During the fiscal years ended December 31, 2008 and 2009, HBM billed us \$0 in fees for assurance and related services relating to the performance of the audit and review of the Company's financial statement.

(3) During the fiscal years ended December 31, 2008 and 2009, HBM billed us \$0 in fees for professional services for tax planning and preparation.

(4) During the fiscal years ended December 31, 2008 and 2009, HBM billed us \$0 in fees for professional services.

#### PART IV

##### Item 15. –Exhibits and Financial Statement Schedules

Exhibit No.	Description
2.1	Securities Exchange Agreement by and among Onny Investment Limited dated October 19, 2005. (incorporated by reference to the registration statement on Form SB-2 filed on October 20, 2005)
3.1	Memorandum and Articles of Association of Onny Investment Limited. (incorporated by reference to the registration statement on Form SB-2 filed on December 23, 2005, as amended)
3.2	Articles of Association of Helpson Medical & Biotechnology Co., Ltd. (incorporated by reference to the registration statement on Form SB-2 filed on October 20, 2005)
3.3	Certificate of Incorporation of Softstone, Inc. (incorporated by reference to our Current Report on Form 8-K filed on August 8, 2001)
3.4	Certificate of Amendment of Certificate of Incorporation of Softstone, Inc. (incorporated by reference to our report on Form 8K filed on August 18, 2003)
3.5	Certificate of Amendment of Certificate of Incorporation of TS Electronics, Inc. (incorporated by reference to our report on Form DEF 14C filed on March 28, 2006)
3.6	Amended and Restated Bylaws (incorporated by reference to our report on Form PRE 14C filed on June 27, 2008)
10.1	Stock Purchase Agreement by and among Halter Financial Group Inc. dated May 11, 2005 filed on May 11, 2005. (incorporated by reference to our current report on Form 8-K filed on May 11, 2005)
10.2	Subscription Agreement by and among Onny Investment Limited stockholders. (incorporated by reference to the registration statement on Form SB-2 filed on October

20, 2005)

- 10.3 Employment Contract between Helpson and Zhilin Li dated July 1, 2005. (incorporated by reference to the quarterly report on Form 10-QSB filed on November 16, 2006)
- 10.4 Employment Contract between Helpson and Jian Yang dated July 1, 2005 (incorporated by reference to the quarterly report on Form 10-QSB filed on November 16, 2006)
- 10.5 Engagement Letter of Gene Micheal Bennett (incorporated by reference to our annual report on Form 10-K filed on March 17, 2009)
- 10.6 Engagement Letter of Yingwen Zhang (incorporated by reference to our annual report on Form 10-K filed on March 17, 2009)
- 10.7 Engagement Letter of Baowen Dong (incorporated by reference to our annual report on Form 10-K filed on March 17, 2009)
- 10.8 Subscription and Registration Rights Agreement among China Pharma Holdings, Inc. and 17 investors (incorporated by reference to our current report on Form 8-K filed on February 6, 2007)
- 10.9 Form of Warrant (incorporated by reference to our current report on Form 8-K filed on February 6, 2007)
- 10.10 Securities Purchase Agreement, dated May 27, 2008, by and among China Pharma Holding, Inc. and the investors (incorporated by reference to our current report on Form 8-K filed on May 28, 2008)
- 10.11 Registration Rights Agreement, dated May 27, 2008, by and among China Pharma Holding, Inc. and the investors (incorporated by reference to our current report on Form 8-K filed on May 28, 2008)
- 10.12 Form of Warrant, dated May 27, 2008 (incorporated by reference to our current report on Form 8-K filed on May 28, 2008)
- 10.13 China Pharma Holdings, Inc. 2009 Stock Option Plan (incorporated by reference to Appendix B of the Company's Preliminary Schedule 14C Information Statement filed with the SEC on September 3, 2009)
- 10.14 Form of Warrant issued to Roth Capital Partners, LLC, dated May 30, 2008
- 10.15 Forms of Warrant issued to FirsTrust Group Inc., dated June 24, 2008 (incorporated by reference to our current report on Form 8-K filed on June 27, 2008)
- 10.16 Forms of Warrant issued to Hayden Communications International, Inc., dated June 24, 2008 (incorporated by reference to our current report on Form 8-K filed on June 27, 2008)
- 10.17 Forms of Warrant issued to Hayden Communications International, Inc., dated December 24, 2008 (incorporated by reference to our current report on Form 8-K filed on December 29, 2008)
- 10.18\* Supply Contract entered into between Hainan Helpson Medical & Biotechnology Co., Ltd. and Anhui Fuyang Xinte Pharmaceutical Company
- 10.19\* Supply Contract entered into between Hainan Helpson Medical & Biotechnology Co., Ltd. and Hainan Xinxin Biotechnology Co., Ltd.
- 10.20\* Sales Contract entered into between Helpson Medical & Biotechnology Co., Ltd. and Anhui Fuyang Xinte Pharmaceutical Company
- 10.21\* Sales Contract entered into between Hainan Helpson Medical & Biotechnology Co., Ltd. and Hainan LIANGBISHI Cosmetics Co., Ltd.
- 10.22 Lease Agreement entered into between Helpson Medical & Biotechnology Co., Ltd. and Hainan Zhongfu Going-abroad Personnel Service Center, and Housing Rent Adjustment Notice (incorporated by reference to the annual report on Form 10-KSB/A filed on March 12, 2009)
- 14.1 Code of Business Conduct and Ethics (incorporated by reference to the registration statement on Form S-1 filed on July 11, 2008)

- 16.1 Letter regarding Change in the Certified Accountant dated August 15, 2005.  
(incorporated by reference to our current report on Form 8-K filed on August 18, 2005)

- 21 Subsidiaries of China Pharma Holdings, Inc. filed on October 20, 2005. (incorporated by reference to the registration statement on Form SB-2 filed on December 23, 2005, as amended)
- 31.1\* Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a) of the Exchange Act.
- 31.2\* Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a) of the Exchange Act.
- 32.1\* Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Audit Committee Charter (incorporated by reference to our annual report on Form 10-K filed on March 17, 2009)
- 99.2 Charter of the Nominating and Compensation Committee (incorporated by reference to our current report on Form 8-K filed on August 28, 2009)

\*Filed herewithin





**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Act of 1933, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

China Pharma Holdings, Inc.

Dated: March 4, 2010 By: /s/ Zhilin Li  
Zhilin Li  
Director, Chief Executive Officer, and President

In accordance with the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of registrant and in the capacities and on the date as indicated.

Dated: March 4, 2010 By: /s/ Zhilin Li  
Zhilin Li  
Director, Chief Executive Officer, and President

Dated: March 4, 2010 By: /s/ Frank Waung  
Frank Waung  
Chief Financial Officer and Principal Accounting Officer

Dated: March 4, 2010 By: /s/ Heung Mei Tsui  
Director

Dated: March 4, 2010 By: /s/ Gene Michael Bennett  
Gene Michael Bennett,  
Independent Director

Dated: March 4, 2010 By: /s/ Yingwen Zhang  
Yingwen Zhang  
Independent Director

Dated: March 4, 2010 By: /s/ Baowen Dong  
Baowen Dong  
Independent Director

**CHINA PHARMA HOLDINGS, INC.**

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**HANSEN, BARNETT & MAXWELL, P.C.**

A Professional Corporation  
CERTIFIED PUBLIC ACCOUNTANTS  
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and the Stockholders

China Pharma Holdings, Inc.

We have audited the consolidated balance sheets of China Pharma Holdings, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Pharma Holdings, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

**HANSEN, BARNETT & MAXWELL, P.C.**

Salt Lake City, Utah

March 4, 2010

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**CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31, 2009	2008
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,634,753	\$ 6,927,149
Trade accounts receivable, less allowance for doubtful accounts of \$2,718,358 and \$4,474,175, respectively	51,238,339	36,008,095
Other receivables, less allowance for doubtful accounts of \$3,556 and \$54,242, respectively	78,525	163,957
Advances to suppliers	1,798,446	3,031,694
Inventory	14,233,073	13,139,750
Deferred tax assets	319,820	461,596
<b>Total Current Assets</b>	<b>71,302,956</b>	<b>59,732,241</b>
<b>Property and Equipment</b> , net of accumulated depreciation of \$2,020,462 and \$1,483,267, respectively	<b>6,705,873</b>	<b>6,738,368</b>
<b>Intangible assets</b> , net of accumulated amortization of \$1,359,048 and \$547,567, respectively	<b>19,332,284</b>	<b>6,162,549</b>
<b>Advances for intangible assets and property and equipment</b>	<b>3,599,949</b>	<b>2,838,679</b>
<b>TOTAL ASSETS</b>	<b>\$ 100,941,062</b>	<b>\$ 75,471,837</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 3,957,923	\$ 1,049,268
Accrued expenses	47,435	56,075
Accrued taxes payable	1,528,691	1,170,003
Other payables	58,191	42,813
Advances from customers	1,037,693	693,178
Other payables-related parties	75,741	75,741
Notes payable	3,802,726	2,480,231
<b>Total Current Liabilities</b>	<b>10,508,400</b>	<b>5,567,309</b>
<b>Long-term research and development commitments</b>	<b>36,565</b>	<b>36,474</b>
<b>Total Liabilities</b>	<b>10,544,965</b>	<b>5,603,783</b>
<b>Stockholders' Equity</b>		
Common stock - \$0.001 par value; 60,000,000 shares authorized; 42,308,350 shares and 42,278,938 shares outstanding, respectively	42,308	42,279
Additional paid-in capital	21,178,114	21,066,338
Retained earnings	63,272,868	43,039,819
Accumulated other comprehensive income	5,902,807	5,719,618
<b>Total Stockholders' Equity</b>	<b>90,396,097</b>	<b>69,868,054</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 100,941,062</b>	<b>\$ 75,471,837</b>

The accompanying notes are an integral part of these consolidated financial statements.

**CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

**AND COMPREHENSIVE INCOME**

	For the Years Ended December 31,	
	2009	2008
<b>Revenue</b>	\$ 61,696,620	\$ 50,968,660
Cost of revenue	36,046,259	25,678,239
<b>Gross profit</b>	25,650,361	25,290,421
Operating expenses		
Selling expenses	2,705,550	2,040,596
General and administrative expenses	2,147,081	1,671,715
Bad debt expense (benefit)	(1,816,785)	1,847,806
Total operating expenses	3,035,846	5,560,117
<b>Income from operations</b>	22,614,515	19,730,304
Interest income	30,695	45,168
Interest expense	(154,182)	(131,027)
Other income (expense)	3,540	(103,177)
<b>Income before income taxes</b>	22,494,568	19,541,268
Provision for income taxes	(2,261,519)	(1,707,618)
<b>Net income</b>	20,233,049	17,833,650
Other comprehensive income - foreign currency translation adjustment	183,189	2,880,314
<b>Comprehensive income</b>	\$ 20,416,238	\$ 20,713,964
<b>Basic and diluted earnings per share</b>	\$ 0.48	\$ 0.44

The accompanying notes are an integral part of these consolidated financial statements.

**CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009**

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	Stockholders'
			Capital		Comprehensive	Equity
					Income	
<b>Balance, December 31, 2007</b>	37,278,938	\$ 37,279	\$ 11,678,606	\$ 25,206,169	\$ 2,839,304	\$ 39,761,358
Issuance of common stock for cash	5,000,000	5,000	9,263,938	--	--	9,268,938
Warrants issued for services	--	--	123,794	--	--	123,794
Net income for the year	--	--	--	17,833,650	--	17,833,650
Foreign currency translation adjustment	--	--	--	--	2,880,314	2,880,314
<b>Balance, December 31, 2008</b>	42,278,938	42,279	21,066,338	43,039,819	5,719,618	69,868,054
Exercise of warrants for cash	29,412	29	69,972	--	--	70,001
Issuance of stock options as compensation	--	--	41,804	--	--	41,804
Net income for the year	--	--	--	20,233,049	--	20,233,049
Foreign currency translation adjustment	--	--	--	--	183,189	183,189
<b>Balance, December 31, 2009</b>	42,308,350	\$ 42,308	\$ 21,178,114	\$ 63,272,868	\$ 5,902,807	\$ 90,396,097

The accompanying notes are an integral part of these consolidated financial statements.



**CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,	
	2009	2008
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 20,233,049	\$ 17,833,650
Depreciation and amortization	1,368,888	719,475
Bad debt expense (benefit)	(1,816,785)	1,847,806
Stock-based compensation	41,804	123,794
Changes in assets and liabilities:		
Trade accounts receivable	(13,366,578)	(17,778,209)
Other receivables	136,587	265,813
Advances to suppliers	1,240,118	(87,978)
Inventory	(1,060,083)	2,243,138
Deferred tax assets	142,846	(257,447)
Trade accounts payable	3,044,387	720,659
Accrued expenses	(8,775)	(219,301)
Accrued taxes payable	355,587	825,119
Other payables	15,274	(48,072)
Other payables-related parties	--	(52,804)
Advances from customers	342,607	407,617
<b>Net Cash Provided by Operating Activities</b>	<b>10,668,926</b>	<b>6,543,260</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(143,082)	(4,310,690)
Purchase of intangible assets	(12,154,561)	(4,184,080)
Advances for intangible assets and property and equipment	(3,063,066)	(1,946,479)
<b>Net Cash Used in Investing Activities</b>	<b>(15,360,709)</b>	<b>(10,441,249)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from exercise of warrants	70,001	--
Proceeds from sale of common stock	--	9,268,938
Proceeds from short-term notes payable	3,800,681	2,441,739
Payments of short-term notes payable	(2,485,060)	(2,829,545)
<b>Net Cash Provided by Financing Activities</b>	<b>1,385,622</b>	<b>8,881,132</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>13,765</b>	<b>13,671</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(3,292,396)</b>	<b>5,096,814</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>6,927,149</b>	<b>1,830,335</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 3,634,753</b>	<b>\$ 6,927,149</b>
<b>Supplemental Cash Flow Disclosure:</b>		
Cash paid for interest	\$ 154,182	\$ 131,027
Cash paid for income taxes	1,773,795	1,294,367
<b>Supplemental Cash Flow from Investing Activities</b>		
Accounts payable for purchases of property and equipment	\$ 139,903	\$ --

The accompanying notes are an integral part of these consolidated financial statements.

**CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009**

**NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Operations** – China Pharma Holdings, Inc., a Delaware corporation, owns 100% of Onny Investment Limited (Onny), a British Virgin Islands corporation, that in turn owns 100% of Hainan Helpson Medical & Biotechnology Co., Ltd (Helpson), which is organized under the laws of The People's Republic of China (the PRC). China Pharma Holdings, Inc. and its subsidiaries are referred to herein as the Company.

Through Helpson, the Company manufactures and markets generic and branded pharmaceutical products primarily to hospitals and private retailers located throughout the PRC. The Company has and continues to acquire well-accepted medical formulas to a diverse portfolio of Western and Chinese medicines. Helpson also manufactures biochemical products, health products and cosmetics.

**Consolidation and Basis of Presentation** – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and are expressed in United States dollars. The accompanying consolidated financial statements include the accounts and operations of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Helpson's functional currency is the Chinese Renminbi. Helpson's revenue and expenses are translated into United States dollars at the average exchange rate for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period. Gains or losses from translating Helpson's financial statements are included in accumulated other comprehensive income which is a component of stockholders' equity. Gains and losses arising from transactions denominated in a currency other than the functional currency of the entity that is party to the transaction are included in the results of operations.

**Accounting Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Cash and Cash Equivalents** – Cash and cash equivalents include interest bearing and non-interest bearing bank deposits, money market accounts, and short-term certificates of deposit with original maturities of three months or less. Cash deposits are held at financial institutions in the PRC and are not insured by the FDIC.

**Trade Accounts Receivable and Allowance for Doubtful Accounts** – Trade accounts receivables are carried at original invoiced amounts less an allowance for doubtful accounts. The allowances for doubtful accounts are calculated based on a detailed review of certain individual customer accounts and an estimation of the overall economic conditions affecting the Company's customer base. The Company reviews a customer's credit history before extending credit. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additions to the allowance would be required. A provision is made against accounts receivable to the extent they are considered unlikely to be collected. It is common practice in the PRC for receivables to extend beyond one year. At December 31, 2009, trade accounts receivables included \$12,730,761 from sales that occurred more than one year prior to December 31, 2009, that management believes are collectable.

During the year ended December 31, 2009, the Company determined that its previous estimates of uncollectible accounts receivable would not be realized. Based on an analysis of the economy and the pharmaceutical industry's bad

debt experience rate, the Company revised its estimate of the allowance for doubtful accounts at December 31, 2009 to \$2,718,358. The change in the estimate resulted in a net bad debt benefit during year ended December 31, 2009 of \$1,816,785.

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**CHINA PHARMA HOLDINGS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2009**

**Advances to Suppliers and Advances from Customers** – Common practice in the PRC is to make advances to suppliers for materials and to receive advances from customers for finished products. Advances to suppliers are applied to trade accounts payable when the materials are received. Advances received from customers are applied against trade accounts receivable when finished products are sold.

**Inventory** – Inventory is stated at the lower of cost or net realizable value, computed on an average cost basis. An allowance for inventory obsolescence is provided when the market value of inventory items is lower than their cost.

**Valuation of Long-Lived Assets** – The carrying values of long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying values may not be recoverable. When such an event occurs, the Company projects the undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections indicate that the carrying value of an asset will not be recovered, it is reduced by the estimated excess of the carrying value over the projected discounted cash flows estimated to be generated by the asset. No impairment was recognized during the years ended December 31, 2009 and 2008.

**Property and Equipment** – Property and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred and major improvements are capitalized. Gains or losses on sale, trade-in or retirement are included in operations during the period of disposition.

**Intangible Assets** – The Company evaluates potential generic and branded drug formulas and, for formulas that the Company desires to pursue, it enters into purchase agreements with independent and university laboratories. Upon the laboratories delivering the drug formulas, the manufacturing technique and production certificates from the State Food and Drug Administration, the Company capitalizes the cost of the medical formulas and manufacturing processes. The cost of these intangible assets is amortized over their estimated useful lives, which are generally 5 to 10 years, using the straight-line method.

**Advances for Intangible Assets and Property and Equipment** – The Company makes advances to third-party laboratories for the purchase of established drug formulas. The advances are applied to the finished medical formulas when delivered to the Company by the laboratories. As of December 31, 2009 and 2008, the amounts advanced were \$3,599,949 and \$2,838,679, respectively.

**Revenue Recognition** – Revenue is considered earned when the Company has persuasive evidence of an arrangement with the customer, delivery of the products has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Delivery does not occur until products have been shipped to the customer, risk of loss has transferred to the customer and customer acceptance has been obtained, customer acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

**Cost of Revenues** – Cost of revenues includes wages, materials, handling charges, and other expenses associated with the manufacture and delivery of product.

**Research and Development** – Research and development expenditures are recorded as expenses in the period in which they occur. Research and development costs were not material during the years ended December 31, 2009 and 2008.

**Retirement Benefit Plans** – The Company is required to make monthly contributions at prescribed rates to various employee retirement benefit plans organized by provincial governments. The governments benefit plans assume the retirement benefit obligations of all existing and future retired employees of the Company. The Company contributed \$73,402 and \$64,194 to retirement benefit plans for the years ended December 31, 2009 and 2008, respectively. Contributions to these plans are charged to expense as incurred.

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**Advertising Costs** – Advertising costs are expensed when incurred. Total advertising expense for the years ended December 31, 2009 and 2008 were \$8,478 and \$46,321, respectively.

**Basic and Diluted Earnings per Share** – Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated to give effect to potentially issuable dilutive common shares. The following table is a reconciliation of the numerators and denominators used in the calculation of basic and diluted earnings per share:

	Years Ended December	
	31,	
	2009	2008
Net income	\$ 20,233,049	\$ 17,833,650
Basic and diluted weighted-average common		
shares outstanding	42,279,663	40,216,096
Basic and diluted earnings per share	\$ 0.48	\$ 0.44

As of December 31, 2009 and 2008, potentially dilutive securities included outstanding warrants and options to purchase 3,040,195 shares and 2,969,607 shares of common stock, respectively, at exercise prices ranging from \$2.38 to \$3.60 per share. These potentially issuable shares were not included in the computation of diluted earnings per share as their effect would have been anti-dilutive.

**Credit Risk** – The carrying amounts of accounts receivable included in the balance sheet represent the Company's exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk. The Company performs ongoing credit evaluations of each customer's financial condition. It maintains allowances for doubtful accounts and such allowances in the aggregate have not exceeded management's estimations.

The Company has its cash in bank deposits primarily at state owned banks located in the PRC. Historically, deposits in PRC banks have been secure due to the state policy on protecting depositors' interests. The PRC promulgated a new Bankruptcy Law in August 2006, which came into effect on June 1, 2007, which contains provisions for the implementation of measures for the bankruptcy of PRC banks. In the event that bankruptcy laws are enacted for banks in the PRC, the Company's deposits may be at a higher risk of loss.

**Interest Rate Risk** – The Company is exposed to the risk arising from changing interest rates, which may affect the ability of repayment of existing debts and viability of securing future debt instruments within the PRC.

**Recently Enacted Accounting Standards** – In June 2009, the Financial Accounting Standards Board (the FASB) issued authoritative guidance on the consolidation of variable interest entities, which is effective for us in the first quarter of 2010. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We believe adoption of this new guidance will not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued accounting guidance which will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to

transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity”, changes the requirements for derecognizing financial assets, and requires additional disclosures. This guidance will be effective in the first quarter of 2010. We believe adoption of this new guidance will not have a material impact on our consolidated financial statements.

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In October 2009, the FASB issued a new accounting standard which provides guidance for arrangements with multiple deliverables. The new standard requires an entity to allocate arrangement consideration at the inception of an arrangement to all of its deliverables based on their relative selling prices. In addition, the new standard eliminates the use of the residual method of allocation and requires the relative-selling-price method in all circumstances in which an entity recognizes revenue for an arrangement with multiple deliverables. In October 2009, the FASB also issued a new accounting standard which changes revenue recognition for tangible products containing software and hardware elements. If certain requirements are met, revenue arrangements that contain tangible products with software elements that are essential to the functionality of the products are scoped out of the existing software revenue recognition accounting guidance and will be accounted for under the multiple-element arrangements revenue recognition guidance discussed above. Both standards will be effective for us in the first quarter of 2011. Early adoption is permitted. We do not expect the adoption of these accounting standards will have a material impact on our consolidated financial statements.

In January 2010, the FASB issued guidance requiring an entity to disclose the following:

- Separately disclose the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe reasons for the transfers.
- Present separately information about purchases, sales, issuances and settlements, on a gross basis, rather than on one net number, in the reconciliation for fair value measurements using significant unobservable inputs (Level 3).
- Provide fair value measurement disclosures for each class of assets and liabilities.
- Provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for fair value measurements that fall in either Level 2 or level 3.

This guidance is effective for the Company in the first quarter of 2010, except for the disclosures about purchases, sales, issuance and settlement on the forward of activity in Level 3 fair value measurements. Those disclosures are effective for us in the fiscal year 2011. We do not expect that the adoption of these accounting standards will have a material impact on our consolidated financial statements.

## NOTE 2 – INVENTORY

Inventory consisted of the following:

	December 31,	
	2009	2008
Raw materials	\$ 9,353,076	\$ 10,836,039
Work in process	--	111,867
Finished goods	4,879,997	2,191,844
<b>Total Inventory</b>	<b>\$ 14,233,073</b>	<b>\$ 13,139,750</b>



**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

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	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
Permit of land use	\$ 411,963	\$ 410,942
Buildings	2,229,442	1,871,206
Plant, machinery and equipment	5,223,872	1,497,004
Motor vehicles	135,127	135,204
Office equipment	109,440	106,918
Construction in progress	616,491	4,200,361
<b>Total Property and Equipment</b>	<b>8,726,335</b>	<b>8,221,635</b>
Less: Accumulated depreciation	(2,020,462)	(1,483,267)
<b>Net Property and Equipment</b>	<b>\$ 6,705,873</b>	<b>\$ 6,738,368</b>

Construction in progress included the cost of improvements to existing facilities for product line expansion and the cost of new equipment to be installed subsequent to year end. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

<b>Asset</b>	<b>Life - years</b>
Permit of land use	40 - 70
Buildings	20 - 35
Plant, machinery and equipment	10
Motor vehicles	5 - 10
Office equipment	5

For the years ended December 31, 2009 and 2008, depreciation expense was \$559,204 and \$434,782, respectively.

#### **NOTE 4 – INTANGIBLE ASSETS**

Intangible assets represent the costs of acquired pharmaceutical formulas, production certificates, licenses, and production techniques. Intangible assets have a weighted-average remaining estimated useful life of approximately 9.3 years. Amortization of intangible assets was \$809,684 and \$284,693 for the years ended December 31, 2009 and 2008, respectively. The estimated aggregate annual amortization expense for the next five years and thereafter follows:

**Years Ending December 31:**

2010	\$	2,062,721
2011		2,062,721
2012		2,062,721
2013		2,062,721
2014		2,055,586
Thereafter		9,025,814
<b>Total</b>	\$	19,332,284

**NOTE 5 – ADVANCES FOR INTANGIBLE ASSETS AND PROPERTY AND EQUIPMENT**

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In order to expand the number of medicines manufactured and marketed by the Company, the Company has entered into purchase contracts with independent and university laboratories. The contracts are for the purchase of established medical formulas for which the related patents have expired (generic medicines). Prior to entering into the contracts, the independent laboratories typically have completed all required research and development to determine the medical formula for and the method of production of the generic medicine. If the Company enters into a contract prior to the determination of the medical formula for a medicine, contract costs incurred to establish the medical formula are recognized as research and development expense. The contracts with the laboratories are primarily for certification of the manufacturing process and authorization by the State Food and Drug Administration (the SFDA) to sell the generic medicines. Under the terms of each contract, the Company is required to make progress payments to the laboratory; however, the payments are fully refundable in the event that the laboratory fails to obtain SFDA certification of the generic medicine under the contract. Payments made prior to the completion of the related progress are recorded as advances for purchases of intangible assets.

The Company is also increasing production capabilities with new machinery and facilities. As is common in the PRC, the Company prepays for much of the machinery and construction supplies. The prepayments are capitalized as advances for purchases of property and equipment until the construction begins or the machinery is delivered to the Company.

#### **NOTE 6 – NOTES PAYABLE**

**Short Term Notes Payable** – On July 13, 2007, the Company entered into a new line of credit with the bank collateralized by certain land use rights, machinery and equipment. The outstanding advance made under the line of credit was \$2,324,278 at December 31, 2007. The line of credit was renewed during the first quarter of 2008 with due dates of August and September of 2008 with interest payable monthly at the rate of 7.84%. The line of credit was paid in full on the maturity dates.

On December 24, 2008 the Company entered into a new line of credit with the bank collateralized by certain land use rights, buildings, machinery and equipment. The outstanding advance made under the line of credit was \$2,480,231 at December 31, 2008 bore interest at a rate of 6.372% and matured on November 23, 2009. The loan was personally guaranteed by Ms. Zhilin Li, the Company's Chief Executive Officer. No additional compensation was paid to Ms. Li for her guarantee of the note payable. The line of credit was paid in full in July, 2009.

On July 2, 2009 the Company entered into a revolving line of credit with a bank bearing interest at a rate of 5.31% collateralized by certain land use rights, buildings, machinery and equipment with carrying amounts of \$5,397,483. The line of credit expires on June 30, 2010. The outstanding advance made under the line of credit was \$3,802,726 at December 31, 2009. There are no additional amounts available to the Company under this line of credit.

**Short Term Notes Payable to Former Shareholders** – In January 2006, the Company converted its dividend payable of \$4,402,147 into short-term notes bearing interest at a rate of 2.25% per annum. The final principal balance of \$369,150 was paid in January, 2008. The accrued interest of \$213,545 was paid during the second quarter of 2008.

**Fair Value of Notes Payable** – Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the carrying amounts of notes payable outstanding at December 31, 2009 and 2008 approximated their fair value because of either the immediate or short-term maturity of these financial instruments or because the underlying instruments bear interest rates that approximated current market rates.

#### **NOTE 7 – INCOME TAXES**

The Company accounts for its income taxes in accordance with SFAS No. 109, which requires recognition of deferred tax assets and liabilities and their respective tax bases and any tax credit carry forwards available. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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Undistributed earnings of the Company's foreign subsidiary since acquisition amounted to approximately \$63.5 million at December 31, 2009. Those earnings, as well as the investment in the subsidiaries of approximately \$21 million are considered to be indefinitely reinvested and, accordingly, no U.S. federal and state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the PRC. Determination of the amount of unrecognized deferred U.S. income tax liability is not practical because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits may be available to reduce a portion of the U.S. tax liability.

On March 16, 2007, the National People's Congress of China passed the new Enterprise Income Tax Law, (EIT Law), and on December 6, 2007, the State Council of China issued the Implementation Regulations for the EIT Law which took effect on January 1, 2008. The EIT Law and Implementation Regulations Rules impose a unified EIT of 25.0% on all domestic-invested enterprises and Foreign Invested Entities, or FIEs, unless they qualify under certain limited exceptions.

The Company is located in a special region, which had a 15% corporate income tax rate before the new EIT Law. The new EIT Law abolished the preferential corporate income tax rate in the special region. However, because the Company was in existence prior to the March 16, 2007 China tax law change, it will gradually transition to the new 25% tax rate over the next five years starting on January 1, 2008. The phase-in income tax rate is 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011, and 25% for 2012 and after. Also, the Company is permitted to use their remaining tax holiday, so they will continue to have a favorable income tax rate of 50% in effect during fiscal 2008 through 2010 as determined by the PRC government and the regional tax authorities.

As a result of the above changes, the Company's enterprise income tax rates are as follows:

Year	Enterprise Income Tax Rate
2008	9%
2009	10%
2010	11%
2011	24%
2012 and after	25%

The provision for income taxes is comprised of the following:

	Years Ended December 31,	
	2009	2008
Current	\$ 2,118,673	\$ 1,965,065
Deferred	142,846	(257,447)
Total provision for income taxes	\$ 2,261,519	\$ 1,707,618

Following is a reconciliation of income taxes calculated at the federal statutory rates to the provision for income taxes:



	Years Ended December 31,	
	2009	2008
Tax at statutory rate of 25%	\$ 5,623,642	\$ 4,977,091
Non-deductible expenses (non-taxable income)	101,205	(746)
Effect of change in tax rate	(29,059)	(193,399)
Effect of tax holiday	(3,434,269)	(3,075,328)
Income tax expense	\$ 2,261,519	\$ 1,707,618

The effect of the tax holiday amounted to \$3,434,269 and \$3,075,328 for the years ended December 31, 2009 and 2008, which was equivalent to basic and diluted earnings per share of \$0.08 and \$0.08 per share for the years ended December 31, 2009 and 2008, respectively.

The temporary differences which give rise to the deferred income tax asset are as follows:

	December 31,	
	2009	2008
Allowance for doubtful trade receivables	\$ 299,019	\$ 447,417
Allowance for doubtful other receivables	391	5,425
Expenses not deductible in the current year	20,410	8,754
Total deferred income tax assets	\$ 319,820	\$ 461,596

The Company has also incurred various other taxes, comprised primarily of business taxes, value-added taxes, urban construction taxes, education surcharges and others. Any unpaid amounts are reflected on the balance sheets as accrued taxes payable.

#### **NOTE 8 – STOCKHOLDERS' EQUITY**

On May 30, 2008 the Company completed an offering of Units priced at \$2.00 per Unit consisting of one share of Company common stock and a three-year warrant to purchase one-fourth of one share of Company common stock at an exercise price of \$2.80 per share. The Company issued 5,000,000 shares of common stock and three-year warrants to purchase 1,250,000 shares of common stock to 17 accredited investors for gross proceeds of \$10,000,000. The net proceeds, after deduction of related offering expenses of \$731,062, amounted to \$9,268,938. In addition, the



placement agent in the transaction was issued three-year warrants to purchase 300,000 shares of common stock at an exercise price of \$2.98 per share. The proceeds were allocated to the warrants issued to the investors and the placement agent based upon their fair values of \$1,090,342 and \$249,366, respectively and the balance of the proceeds of \$8,221,449 was allocated to the shares of common stock. The fair value of the warrants, determined using the Black-Scholes Option Pricing Model, was calculated using the following assumptions: risk free interest rate of 2.93%, expected dividend yield of 0%, expected volatility of 62.9% and an expected life of 3 years.

The common shares and the shares underlying the warrants have registration rights, and the Company was required to file a registration statement including said shares with the Securities and Exchange Commission. In the event that the Company did not file a registration statement within 45 days of the closing date of the offering, or the registration statement is not declared effective within the 90 or 120 day time periods from the closing date as defined in the registration rights agreement, or if the Company fails to keep the registration statement effective, the Company will be required to pay a penalty to each investor equal to 1% of the purchase price for each 30 day period. The Company filed a registration statement with the Securities and Exchange Commission on July 11, 2008 and it was declared effective August 12, 2008. The Company has not accrued any penalty under the registration rights agreement but will evaluate any liability related to the effectiveness of the registration statement at the end of each reporting period.

On June 24, 2008, the Company issued three-year warrants to purchase 75,000 shares of Company common stock at \$2.80 per share and three-year warrants to purchase 75,000 shares of the Company's common stock at \$3.60 per share to a vendor valued at \$90,487. The value was recorded as general and administrative expense in the accompanying financial statements as of the date of issuance.

Also on June 24, 2008, the Company issued three-year warrants to purchase 25,000 shares of Company common stock at \$3.00 per share and three-year warrants to purchase 25,000 shares of the Company's common stock at \$3.50 per share to a vendor valued at \$29,554. The value was recorded as general and administrative expense in the accompanying financial statements as of the date of issuance.

On December 24, 2008, the Company issued three-year warrants to purchase 8,333 shares of Company common stock at \$3.00 per share and three-year warrants to purchase 8,333 shares of the Company common stock at \$3.50 per share to a vendor valued at \$3,752. The value was recorded as general and administrative expense in the accompanying financial statements as of the date of issuance.

The fair values of the warrants issued on June 24 and December 24, 2008 were determined using the Black-Scholes Option Pricing Model, using the following assumptions: risk free interest rate of 1.14% - 3.14%, expected dividend yield of 0%, expected volatility of 61.3% - 65.4% and an expected life of 3 years. The exercise price of the warrants exceeded the market price of the stock on the dates of grant.

On February 1, 2007 the Company completed an offering of units priced at \$1.70 per unit consisting of one share of Company common stock and a warrant to purchase one-half of a share of Company common stock at an exercise price of \$2.38 per share which expire on January 29, 2010. The remaining 1,202,941 warrant shares issued in conjunction with the offering had not been exercised at December 31, 2008. On December 22, 2009 the Company received proceeds of \$70,001 and issued 29,412 shares of its common stock pursuant to the exercise of warrants. The remaining 1,173,529 warrants remain outstanding at December 31, 2009.

**2009 Stock Option Plan** – On September 2, 2009, the board of directors of the Company adopted the 2009 Stock Option Plan, under which a total of 1,000,000 shares of the Company's common stock are available for issuance to directors, officers, employees, and eligible consultants.

On October 13, 2009 the Company issued options to purchase 100,000 shares of common stock at an exercise price of \$2.75 per share to an officer of the Company pursuant to its 2009 Stock Option Plan. The options vest in two equal tranches on April 28, 2010 and September 30, 2010 and expire two years from the respective vesting dates. The strike price for the options represents 85% of the market price on the date of grant. The value of the option of \$134,600 was determined using the Black Scholes option pricing model using the simplified method based on the closing market price of \$3.23 per share and assumptions for the risk free interest rate of 1.42% and volatility of 79.1%. The Company applies the simplified method due to the lack of historical share option exercise data to provide a reasonable basis upon which to estimate expected term. A total of \$41,804 of compensation expense related to the vested portion of the option was recognized in the accompanying statement of operations as general and administrative for the year ended December 31, 2009. The remaining unrecognized compensation expense of \$92,796 will be recognized over the remaining vesting period during fiscal 2010. As of December 31, 2009, the aggregate intrinsic value of the options is \$110,000.

## **NOTE 9 – CONTINGENCIES**

**Economic environment** – Significantly all of the Company's operations are conducted in the PRC, and therefore the Company is subject to special considerations and significant risks not typically associated with companies operating in the United States of America. These risks include, among others, the political, economic and legal environments and fluctuations in the foreign currency exchange rate. The Company's results from operations may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to

laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. The unfavorable changes in global macroeconomic factors may also adversely affect the Company's operations.

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In addition, all of the Company's revenue is denominated in the PRC's currency of Renminbi (RMB), which must be converted into other currencies before remittance out of the PRC. Both the conversion of RMB into foreign currencies and the remittance of foreign currencies abroad require approval of the PRC government.

**NOTE 10 – CONCENTRATIONS**

For the year ended December 31, 2009, two customers accounted for 25% and 11% of sales, respectively. For the year ended December 31, 2008, two customers accounted for 14% and 10% of sales, respectively. At December 31, 2009, one customer accounted for 15% of accounts receivable. For the year ended December 31, 2009, purchases from two suppliers made up 43% and 19% of raw material purchases, respectively. For the year ended December 31, 2008 purchases from three suppliers accounted for 27%, 26% and 19% of raw material purchases, respectively.

**NOTE 11 – SUBSEQUENT EVENTS**

In January and February 2010, the Company received aggregate proceeds of \$2,583,000 and issued 1,085,294 shares of its common stock pursuant to the exercise of certain warrants with an exercise price of \$2.38 per share issued in conjunction with its February 1, 2007 unit offering. The remaining 88,235 warrant shares to purchase common stock expired unexercised.